

Southwest Michigan Library Cooperative
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended September 30, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Southwest Michigan Library Cooperative
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Southwest Michigan Library Cooperative's (the Cooperative) financial performance provides a narrative overview of the Cooperative's financial activities for the fiscal year ended September 30, 2006. Please read it in conjunction with the Cooperative's financial statements.

FINANCIAL HIGHLIGHTS

- The Cooperative's total net assets decreased by \$72,505 (24.2 percent) as a result of this year's activities.
- The decrease in the net assets was primarily due to a \$38,215 decrease in charges for services and a \$19,538 loss on the sale of assets.
- The Operating Fund's unreserved, undesignated fund balance at the end of the fiscal year was \$122,178, which represents 23.5 percent of the actual total Operating Fund expenditures for the current fiscal year.

Overview of the financial statements

The statement of net assets reports all of the Cooperative's assets and liabilities along with the difference between the two, which is identified as the net assets. Over time, increases or decreases in net assets may serve as a useful indicator as to whether the Cooperative's financial position is improving or deteriorating. However, other factors must also be considered when evaluating the overall financial position.

The statement of revenues, expenses, and changes in net assets shows how the Cooperative's net assets changed during the fiscal year. All changes in net assets are reported when the underlying events giving rise to the changes occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave). This statement should help the reader to answer the question: Is the Cooperative, better off or worse off as a result of this year's activities?

Funds

The accounts of the Cooperative are organized on the basis of funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Cooperative's fund is classified in one category:

Operating Fund. This fund accounts for the expenses involved in providing services to its constituent's who are then charged fees to recover the costs of operation. This fund uses the modified-accrual basis of accounting.

The notes to the basic financial statements provide additional information that is necessary to understand the data reported in the financial statements.

Southwest Michigan Library Cooperative
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS

Net assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the Cooperative's case, assets exceeded liabilities at the end of the fiscal year by \$227,597. The Cooperative's investment in capital assets net of related debt (e.g., building, equipment, and vehicles), a component of the total net assets, amounts to \$126,923. The Cooperative uses these capital assets to provide essential services to its customers; consequently, these assets are not available to be liquidated for future spending needs. The remaining net assets in the amount of \$100,674, is unrestricted.

Table 1 - Net assets

	<i>Governmental activities</i>	
	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 144,457	\$ 205,884
Capital assets	<u>135,754</u>	<u>202,434</u>
Total assets	<u>280,211</u>	<u>408,318</u>
Long-term debt	30,335	55,304
Other liabilities	<u>22,279</u>	<u>52,912</u>
Total liabilities	<u>52,614</u>	<u>108,216</u>
Net assets:		
Invested in capital assets, net	126,923	162,557
Unrestricted	<u>100,674</u>	<u>137,545</u>
Total net assets	<u>\$ 227,597</u>	<u>\$ 300,102</u>

Net assets of the Cooperative's governmental activities decreased by \$72,505 (24.2 percent) to \$227,597. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, without constraints by debt covenants, enabling legislation or other legal requirements - decreased by \$36,871 (26.8 percent) to \$100,674.

Southwest Michigan Library Cooperative
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The total cost of the Cooperative's operations amounted to \$511,311 in 2006 compared to \$562,805 in 2005, or a 9 percent decrease.

Table 2 - Change in net assets

	<i>Governmental activities</i>	
	<u>2006</u>	<u>2005</u>
Program revenues:		
Operating contributions	\$ 118,694	\$ 143,312
Charges for services	66,401	104,616
General revenues:		
State aid	266,843	265,725
Interest	2,001	1,457
Loss on sale of assets	(19,538)	-
Other	4,405	-
Total revenues	<u>438,806</u>	<u>515,110</u>
Expenses:		
Recreation and culture	509,646	561,071
Interest on debt	1,665	1,734
Total expenses	<u>511,311</u>	<u>562,805</u>
Excess before transfers	(72,505)	(47,695)
Decrease in net assets	<u>\$ (72,505)</u>	<u>\$ (47,695)</u>

Operating Fund budgetary highlights

The difference between the original budget and the final amended budget for expenditures was an increase of \$137,041, primarily due to expected increases in expenditures. Actual total expenditures exceeded the final total budget by only \$8,436.

Capital assets and debt administration

Capital assets

The Cooperative's investment in capital assets for its governmental activities as of September 30, 2006, amounted to \$135,754 (net of accumulated depreciation). This investment includes assets consisting of equipment and buildings.

The decrease in the Cooperative's net investment in capital assets for the current fiscal year was \$66,680 or 33 percent. The Major capital asset event during the current fiscal year included the sale of 3 delivery trucks, which resulted in a loss in the amount of \$19,538.

More detailed information about the Cooperative's capital assets is presented in Note 4 of the basic financial statements.

Southwest Michigan Library Cooperative
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Debt administration

At the end of the fiscal year, the Cooperative had total long-term debt outstanding in the amount of \$30,335, which represents a decrease of \$24,969 (28 percent). No new debt was issued this year.

More detailed information about the Cooperative's long-term liabilities is presented in Note 5 of the basic financial statements.

Economic condition and outlook

The Cooperative continues to rely on support from its constituents and the state to finance all operating costs and capital acquisitions.

Contacting the Cooperative's financial management

This financial report is designed to provide a general overview of the Cooperative's finances to its customers and creditors, and to demonstrate the Cooperative's accountability for the money it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Gail B. Powers-Schaub, Director
Southwest Michigan Library Cooperative
305 Oak Street
Paw Paw, MI 49079

Phone: (269) 657-4698

INDEPENDENT AUDITORS' REPORT

**Board of Directors
Southwest Michigan Library Cooperative**

We have audited the accompanying financial statements of the governmental activities and the major fund of Southwest Michigan Library Cooperative as of and for the year ended September 30, 2006, which collectively comprise the Cooperative's basic financial statements as listed in the contents. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 financial position of the governmental activities and the major fund of the Southwest Michigan Library Cooperative as of September 30, 2006, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The management's discussion and analysis and budgetary comparison schedule, as listed in the contents, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Sigfried Crandall P.C.

November 21, 2006

BASIC FINANCIAL STATEMENTS

Southwest Michigan Library Cooperative

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET

September 30, 2006

	<u>Operating Fund</u>	<u>Adjustments</u>	<u>Statement of net assets</u>
ASSETS			
Cash	\$ 138,947	\$ -	\$ 138,947
Due from other governmental units	5,510	-	5,510
Capital assets (net)	-	135,754	135,754
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 144,457</u>	<u>135,754</u>	<u>280,211</u>
LIABILITIES			
Accounts payable	\$ 10,248	-	10,248
Accrued liabilities	1,296	-	1,296
Deferred revenue	10,735	-	10,735
Long-term liabilities:			
Due within one year	-	5,007	5,007
Due after one year	-	25,328	25,328
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	22,279	<u>30,335</u>	<u>52,614</u>
FUND BALANCE/NET ASSETS			
Fund balance - unreserved, undesignated	<u>122,178</u>	<u>(122,178)</u>	<u>-</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balance	<u>\$ 144,457</u>		
Net assets:			
Investment in capital assets, net of related debt		126,923	126,923
Unrestricted		<u>100,674</u>	<u>100,674</u>
		<u> </u>	<u> </u>
Total net assets		<u>\$ 227,597</u>	<u>\$ 227,597</u>
Operating Fund - fund balance			\$ 122,178
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:			
Capital assets are not financial resources and, therefore, are not reported in the fund.			
			135,754
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the fund.			
			<u>(30,335)</u>
Net assets of <i>governmental activities</i>			<u>\$ 227,597</u>

See notes to financial statements

Southwest Michigan Library Cooperative

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

Year ended September 30, 2006

	<u>Operating Fund</u>	<u>Adjustments</u>	<u>Statement of activities</u>
EXPENDITURES/EXPENSES			
Recreation and culture	\$ 487,677	\$ 21,969	\$ 509,646
Debt service:			
Principal	31,046	(31,046)	-
Interest	<u>1,665</u>	<u>-</u>	<u>1,665</u>
Total expenditures/expenses	<u>520,388</u>	<u>(9,077)</u>	<u>511,311</u>
PROGRAM REVENUES			
Operating contributions	118,694	-	118,694
Charges for services	<u>66,401</u>	<u>-</u>	<u>66,401</u>
Total program revenues	<u>185,095</u>	<u>-</u>	<u>185,095</u>
NET PROGRAM EXPENSES	<u>(335,293)</u>	<u>9,077</u>	<u>(326,216)</u>
GENERAL REVENUES			
State aid	266,843	-	266,843
Interest	2,001	-	2,001
Proceeds from sale of assets (loss thereon)	31,250	(50,788)	(19,538)
Other	<u>4,405</u>	<u>-</u>	<u>4,405</u>
Total general revenues	<u>304,499</u>	<u>(50,788)</u>	<u>253,711</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES/ CHANGES IN NET ASSETS	(30,794)	(41,711)	(72,505)
FUND BALANCE/NET ASSETS - BEGINNING	<u>152,972</u>	<u>147,130</u>	<u>300,102</u>
FUND BALANCE/NET ASSETS - ENDING	<u>\$ 122,178</u>	<u>\$ 105,419</u>	<u>\$ 227,597</u>

See notes to financial statements

Southwest Michigan Library Cooperative
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
Year ended September 30, 2006

Net change in fund balance (page 5)	\$ (30,794)
Amounts reported in the statement of activities are different because:	
Depreciation expense in the current period	(15,892)
Book value of capital asset dispositions	(50,788)
Repayment of long-term debt	31,046
Increase in compensated absences	<u>(6,077)</u>
Change in net assets	<u>\$ (72,505)</u>

See notes to financial statements

Southwest Michigan Library Cooperative
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Southwest Michigan Library Cooperative (the Cooperative) conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies:

a) Reporting entity:

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Cooperative. The criteria established by the GASB for determining the reporting entity include oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Cooperative has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the Cooperative's financial statements.

The Cooperative was established under the authority and provision of Michigan Public Act 89 to provide library services to its member libraries. The Cooperative derives its principal operating revenues from state grants and public library members that pass a portion of their state grants to the Cooperative.

b) Basis of accounting:

The statement of net assets and the statement of activities are reported using the economic resources, measurement focus, and the accrual basis of accounting. Revenue is recorded when earned and expenses when a liability is incurred, regardless of timing of related cash flows. Grants and similar items are recognized as revenue as soon as all the eligibility requirements imposed by provider have been met.

The operating fund statements are reported using current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available if expected to be collected in the current period or within 60 days of the end of the current fiscal year end. Expenditures are generally recognized when the related liability is incurred.

c) Assets and liabilities:

- i) Bank deposits* - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value.
- ii) Receivables* - All receivables are estimated to be fully collectible as presented. Currently all receivables are due within one year.

Southwest Michigan Library Cooperative
NOTES TO FINANCIAL STATEMENTS (Continued)

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

c) *Assets and liabilities* (continued):

iv) *Capital assets* - Capital assets, which include land, buildings, equipment and furniture, and vehicles, are defined by the Cooperative as assets with an initial cost of more than \$1,000 and 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. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	20 - 40 years
Equipment and furniture	5 - 10 years
Vehicles	10 years

v) *Deferred revenues* - Deferred revenues represent member library assessments received in advance to be used for the next fiscal year and amounts not yet earned under contract.

vi) *Accumulated compensated absences* - The Cooperative's policy permits employees to accumulate an unlimited amount of earned, but unused, vacation and sick leave. Upon separation, the employees are paid for all unused vacation pay. Upon retirement, the employees are paid for all unused vacation pay and up to 90 days of sick leave.

A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the Cooperative. Vested compensated absences are accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - An annual budget is adopted on a basis consistent with generally accepted accounting principles for the Operating Fund. The legal level of budgetary control adopted by the governing body is the functional level. Amounts encumbered for purchase orders, contracts, etc., are tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. There were no significant budget variations during the current fiscal year.

Southwest Michigan Library Cooperative
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH:

Deposits are carried at cost and are maintained at various financial institutions in the name of the Cooperative. Michigan Compiled Laws, Section 129.91, authorizes the Cooperative to deposit and invest in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Cooperative's deposits are in accordance with statutory authority. At September 30, 2006, cash included deposits with a carrying amount of \$138,897 and a bank balance of \$141,718. Of the bank balance, \$141,718 is covered by federal depository insurance.

Custodial credit risk of deposits is the risk that, in the event of the failure of a depository financial institution, the Cooperative will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As such, the Cooperative is not exposed to custodial credit risk.

The Cooperative believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Cooperative evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

NOTE 4 - CAPITAL ASSETS:

Capital asset activity of the Cooperative for the current year was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Capital assets:				
Buildings and improvements	\$ 157,362	\$ -	\$ -	\$ 157,362
Furniture and equipment	76,563	-	-	76,563
Vehicles	84,480	-	(84,480)	-
Subtotal	<u>318,405</u>	<u>-</u>	<u>(84,480)</u>	<u>233,925</u>
Less accumulated depreciation for:				
Buildings and improvements	(40,397)	(4,845)	-	(45,242)
Furniture and equipment	(46,099)	(6,830)	-	(52,929)
Vehicles	(29,475)	(4,217)	33,692	-
Subtotal	<u>(115,971)</u>	<u>(15,892)</u>	<u>33,692</u>	<u>(98,171)</u>
Total capital assets, net	<u>\$ 202,434</u>	<u>\$ (15,892)</u>	<u>\$ (50,788)</u>	<u>\$ 135,754</u>

Southwest Michigan Library Cooperative
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - LONG-TERM LIABILITIES:

Long-term liabilities, at September 30, 2006, consist of the following individual items:

Installment purchase agreements:

\$4,995 installment purchase agreement, secured by equipment, for financing the acquisition of a copier. Payable in monthly installments of \$121, including interest at a rate of 15.8%, through April 2007. \$ 803

\$16,117 installment purchase agreement, secured by equipment, for financing the acquisition of computer equipment. Payable in monthly installments of \$399, including interest at a rate of 9.6%, through July 2008. 8,028

Total installment purchase agreements 8,831

Accrued compensated absences 21,504

Total long-term liabilities \$30,335

Long-term liability activity for the year ended September 30, 2006, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Installment purchase agreements	\$ 39,877	\$ -	\$ 31,046	\$ 8,831	\$ 5,007
Compensated absences	<u>15,427</u>	<u>52,918</u>	<u>46,841</u>	<u>21,504</u>	<u>-</u>
Total long-term liabilities	<u>\$ 55,304</u>	<u>\$ 52,918</u>	<u>\$ 77,887</u>	<u>\$ 30,335</u>	<u>\$ 5,007</u>

At September 30, 2006, debt service requirements, with the exception of the compensated absences, were as follows:

<u>Year ended September 30:</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 5,007	\$ 633
2008	<u>3,824</u>	<u>171</u>
Totals	<u>\$ 8,831</u>	<u>\$ 804</u>

Southwest Michigan Library Cooperative
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - DEFINED CONTRIBUTION AND MONEY PURCHASE PLAN:

The Cooperative maintains a defined contribution plan, specifically referred to as the Cooperative Fringe Benefit Plan (the Plan). The Plan is a non-trustee plan and the Cooperative does not administer the Plan assets. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Michigan state statute assigns the authority to establish and amend benefit provisions to the Cooperative Board of Trustees. All Cooperative employees employed for at least 32 hours per week on a regular basis are eligible to participate. Eligible employees may begin participating in the Plan after a six month probationary period. After the probationary period, the employee(s) will receive pro-rated fringe benefits retroactive to hire date. The Cooperative will contribute up to 32% of the employee's salary to the Plan. This may be health, life, disability, tax shelter annuity (it must be a 403(B) qualified plan), or another similar "fringe" program. All of the Cooperative's contributions for each participating employee (and interest allocated to the employee's account) are fully vested on the day the employee is eligible to participate in the Plan.

The Cooperative made required contributions of \$38,167 during the fiscal year ended September 30, 2006.

NOTE 7 - RISK MANAGEMENT:

The Cooperative is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Cooperative has purchased commercial insurance for each of these claims and is neither self-insured, nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

SUPPLEMENTARY INFORMATION

Southwest Michigan Library Cooperative
BUDGETARY COMPARISON SCHEDULE - Operating Fund
Year ended September 30, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
State grants	\$ 262,265	\$ 266,843	\$ 266,843	\$ -
Contributions from local units	144,332	118,237	118,694	457
Charges for services	24,825	23,101	66,401	43,300
Interest	800	2,810	2,001	(809)
Other	8,000	35,059	35,655	596
Total revenues	<u>440,222</u>	<u>446,050</u>	<u>489,594</u>	<u>43,544</u>
EXPENDITURES				
Recreation and culture:				
Headquarters	190,987	251,304	271,867	(20,563)
Computer service/interlibrary loan	209,520	201,225	184,556	16,669
Delivery services	45,369	32,717	31,254	1,463
Total recreation and culture	<u>445,876</u>	<u>485,246</u>	<u>487,677</u>	<u>(2,431)</u>
Debt service:				
Principal	11,148	26,706	31,046	(4,340)
Interest	-	-	1,665	(1,665)
Total debt service	<u>11,148</u>	<u>26,706</u>	<u>32,711</u>	<u>(6,005)</u>
Total expenditures	<u>457,024</u>	<u>511,952</u>	<u>520,388</u>	<u>(8,436)</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES				
	(16,802)	(65,902)	(30,794)	35,108
FUND BALANCES - BEGINNING				
	<u>152,972</u>	<u>152,972</u>	<u>152,972</u>	<u>-</u>
FUND BALANCES - ENDING				
	<u>\$ 136,170</u>	<u>\$ 87,070</u>	<u>\$ 122,178</u>	<u>\$ 35,108</u>