

Southwest Michigan Library Cooperative
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended September 30, 2009

SiegfriedCrandallPC

Certified Public Accountants & Advisors

Southwest Michigan Library Cooperative
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Year ended September 30, 2009

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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, 2009. Please read it in conjunction with the Cooperative's financial statements.

FINANCIAL HIGHLIGHTS

- The Cooperative's total net assets (and the related Operating Fund balance) increased by \$64,018 (25.7 percent) as a result of this year's activities.
- The increase is attributable to State aid in excess of expenditures.
- The Operating Fund's unreserved, undesignated fund balance at the end of the fiscal year of \$317,360 represents 249.1 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 activities 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 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 constituents 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 \$317,360. There exist no restrictions as to use of these net assets.

Table 1 - Net assets

	<i>Governmental activities</i>	
	<u>2009</u>	<u>2008</u>
Current assets	\$ 318,582	\$ 265,265
Other liabilities	<u>1,222</u>	<u>11,923</u>
Net assets, unrestricted	<u>\$ 317,360</u>	<u>\$ 253,342</u>

Net assets of the Cooperative's governmental activities increased by \$64,018 (25.3 percent) to \$317,360, as spending did not keep pace with current year revenues.

The total cost of the Cooperative's operations amounted to \$127,422 in 2009 compared to \$244,782 in 2008, (a decrease of \$117,360, or 47.9% percent). In both 2009 and 2008, the Cooperative limited its operations to allocations to member libraries for technological additions and betterments, and related administration.

Private foundation grants decreased by \$32,484, as 2008 represented the final round awards of the Public Access Computer Hardware Upgrade Grant from the Bill & Melinda Gates Foundation, and state aid decreased \$7,867 (3.9%).

Table 2 - Change in net assets

	<i>Governmental activities</i>	
	<u>2009</u>	<u>2008</u>
Program revenues:		
Operating grants and contributions	\$ -	\$ 32,484
General revenues:		
State aid	<u>191,440</u>	<u>199,307</u>
Total revenues	<u>191,440</u>	<u>231,791</u>
Expenses:		
Recreation and culture:		
Member services/technology	110,986	228,796
Administration	<u>16,436</u>	<u>15,986</u>
Total expenses	<u>127,422</u>	<u>244,782</u>
Increase/(decrease) in net assets	<u>\$ 64,018</u>	<u>\$ (12,991)</u>

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

Operating Fund budgetary highlights

The original budget was amended to reflect an anticipated decrease in state grants, and related decrease in the amount of allocations to member libraries. Actual total expenditures were below the final total budget by \$26,923, as the amended budget was not modified to approximate lower than expected levels of expenditures.

Capital assets and debt administration

At the end of the fiscal year, the Cooperative reported no investment in capital assets and no long-term debt.

Economic condition and outlook

The Cooperative continues to rely on the state to finance operating costs. At this time, the Cooperative has elected to maintain a significantly reduced level of operation until the State can be more definitive as to the role of regional library cooperatives.

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:

Richard Hulse, Acting Director
Southwest Michigan Library Cooperative
c/o Willard Public Library
7 West Van Buren
Battle Creek, MI 49017

Phone: (269) 968-8166

INDEPENDENT AUDITORS' REPORT

**Board of Directors
Southwest Michigan Library Cooperative**

We have audited the accompanying financial statements of the Southwest Michigan Library Cooperative as of and for the year ended September 30, 2009, as listed in the contents. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southwest Michigan Library Cooperative as of September 30, 2009, and the change in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was conducted 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.

Siegfried Crandall P.C.

December 11, 2009

BASIC FINANCIAL STATEMENTS

Southwest Michigan Library Cooperative
STATEMENT OF NET ASSETS
September 30, 2009

ASSETS

Cash \$ 318,582

LIABILITIES

Accounts payable 1,222

NET ASSETS - unrestricted \$ 317,360

See notes to financial statements

Southwest Michigan Library Cooperative

STATEMENT OF ACTIVITIES

Year ended September 30, 2009

EXPENSES

Recreation and culture:

Member services/technology \$ 110,986

Administration 16,436

Total expenses 127,422

GENERAL REVENUES

State grants 191,440

CHANGES IN NET ASSETS 64,018

NET ASSETS - BEGINNING 253,342

NET ASSETS - ENDING \$ 317,360

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 includes 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.

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 are recorded 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 the provider have been met.

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) 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. Currently, the Cooperative holds no capital assets.

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 instances of expenditures in excess of budgeted amounts in 2009.

Southwest Michigan Library Cooperative
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - DEPOSITS:

Deposits are carried at cost and are maintained at a single financial institution in the name of the Cooperative. Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended), 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.

Custodial credit risk is the risk that, in the event of the failure of a 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 federal depository insurance or are uncollateralized. At September 30, 2009, cash consisted solely of non-interest bearing deposits with a corresponding bank balance of \$320,634. The entire bank balance is covered by federal depository insurance.

State law does not require, and the Cooperative's deposit and investment policy does not have, specific limits in excess of state law pertaining to custodial credit risk. 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. Currently, the Cooperative maintains all of its deposits with a single financial institution.

NOTE 4 - RISK MANAGEMENT:

The Cooperative is exposed to various risks of loss related to property loss, torts, and errors and omissions. 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.

NOTE 5 - PRIOR PERIOD ADJUSTMENT:

In 2009, the Cooperative recorded a prior period adjustment to correct its method of accounting for certain accrued expenses. As a result of this adjustment, net assets as of October 1, 2008, as shown in the accompanying financial statements, represent restated amounts, as follows:

Net assets, beginning of year:	
As previously reported	\$ 264,912
Understatement of accrued expenses	<u>(11,570)</u>
As restated	<u>\$ 253,342</u>

SUPPLEMENTARY INFORMATION

Southwest Michigan Library Cooperative
BUDGETARY COMPARISON SCHEDULE - Operating Fund
 Year ended September 30, 2009

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
State grants	\$ 240,000	\$ 198,680	\$ 191,440	\$ (7,240)
EXPENDITURES				
Recreation and culture:				
Member services/technology	89,000	127,990	110,986	17,004
Administration	40,557	26,355	16,436	9,919
Total expenditures	<u>129,557</u>	<u>154,345</u>	<u>127,422</u>	<u>26,923</u>
EXCESS OF REVENUES OVER EXPENDITURES	110,443	44,335	64,018	19,683
FUND BALANCES - BEGINNING	<u>253,342</u>	<u>253,742</u>	<u>253,342</u>	<u>(400)</u>
FUND BALANCES - ENDING	<u>\$ 363,785</u>	<u>\$ 298,077</u>	<u>\$ 317,360</u>	<u>\$ 19,283</u>

December 11, 2009

To the Board of Directors
Southwest Michigan Library Cooperative

We have audited the financial statements of the Southwest Michigan Library Cooperative for the year ended September 30, 2009, and have issued our report thereon dated December 11, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated September 1, 2009, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Southwest Michigan Library Cooperative are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2009. We noted no transactions entered into by the Southwest Michigan Library Cooperative during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There are no sensitive estimates affecting the financial statements.

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

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter associated with the audit for the year ended September 30, 2009.

Other Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Southwest Michigan Library Cooperative's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

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

Communication Regarding Internal Control

In planning and performing our audit of the financial statements of the Southwest Michigan Library Cooperative as of and for the year ended September 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Southwest Michigan Library Cooperative'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 Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Southwest Michigan Library Cooperative's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency in Southwest Michigan Library Cooperative's internal control to be a material weakness:

- The Cooperative has not implemented a system of controls to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to achieve the objectives of recording revenue and expense accruals and the presentation of financial statement disclosures. The Cooperative has relied upon our firm as auditor to identify and develop material adjustments necessary to convert the Cooperative's financial statements into full accrual financial statements and to prepare the financial statements and appropriate disclosures. This service is allowable under current auditing standards and ethical guidelines and may be the most efficient and effective method for preparation of the Cooperative's financial statements. However, when an organization (on its own) lacks the ability to produce financial statements that conform to generally accepted accounting principles, or when material audit adjustments are identified by the auditor, auditing standards require that such conditions be communicated in writing as material weaknesses. The Cooperative has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so.

This communication is intended solely for the information and use of the Board of Directors of the Southwest Michigan Library Cooperative and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Sigfried Crandall P.C.