

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 WOODLANDS LIBRARY COOPERATIVE	County CALHOUN
Fiscal Year End 09/30/07	Opinion Date NOVEMBER 1, 2007	Date Audit Report Submitted to State NOVEMBER 7, 2007		

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).

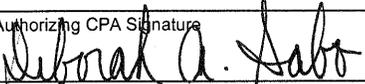
YES NO

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"/>	
Certified Public Accountant (Firm Name) COOLEY HEHL WOHLGAMUTH & CARLTON		Telephone Number (734) 241-7200
Street Address ONE SOUTH MONROE STREET		City MONROE
		State MI
		Zip 48161
Authorizing CPA Signature 	Printed Name DEBORAH A. SABO	License Number 1101025211

WOODLANDS LIBRARY COOPERATIVE
Albion, Michigan

ANNUAL FINANCIAL REPORT
2007 and 2006

WOODLANDS LIBRARY COOPERATIVE

ANNUAL FINANCIAL REPORT

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**COOLEY HEHL
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Independent Auditor's Report

Board of Directors
Woodlands Library Cooperative
Albion, Michigan 49224

We have audited the accompanying financial statements of Woodlands Library Cooperative as of and for the years ended September 30, 2007 and 2006, which collectively comprise the Cooperative's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 basic financial statements referred to above present fairly, in all material respects, the respective financial position of Woodlands Library Cooperative as of September 30, 2007 and 2006, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2007, on our consideration of Woodlands Library Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5-8 are not a required part of the basic financial statements but are supplementary 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.

Board of Directors
Woodlands Library Cooperative

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Woodlands Library Cooperative's basic financial statements. The schedules listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of Woodlands Library Cooperative. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

Cooley Hehl Wohlgamuth & Carlton

November 1, 2007



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Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*

Board of Directors
Woodlands Library Cooperative
Albion, Michigan 49224

We have audited the basic financial statements of Woodlands Library Cooperative as of and for the years ended September 30, 2007 and 2006, which collectively comprise the Woodlands Library Cooperative's basic financial statements, and have issued our report thereon dated November 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Woodlands Library Cooperative's internal control over financial reporting 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 Woodlands Library Cooperative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Woodlands Library Cooperative's internal control over financial reporting.

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 combination of control deficiencies, that adversely affects Woodlands Library Cooperative'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 Woodlands Library Cooperative's financial statements that is more than inconsequential will not be prevented or detected by Woodlands Library Cooperative's internal control.

A material weakness is a significant deficiency, or 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 Woodlands Library Cooperative's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Directors
Woodlands Library Cooperative

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Woodlands Library Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Woodlands Library Cooperative in a separate letter dated November 1, 2007.

This report is intended solely for the information and use of management and the Library of Michigan and is not intended and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Cooley Hehl Wohlgamuth & Carlton". The signature is written in black ink and is positioned above the date.

November 1, 2007

WOODLANDS LIBRARY COOPERATIVE

Management's Discussion and Analysis
Years Ended September 30, 2007 and 2006

Using this Annual Report

This annual report consists of the *Independent Auditor's Reports*, the *Management's Discussion and Analysis* (this section), the *basic financial statements and other supplemental information*. The basic financial statements also include notes that explain some of the information in the financial statements and provides more detailed data. The statements are followed by a section of *other supplemental information* that further explains and supports the information in the financial statements.

Required Financial Statements

The Cooperative's financial statements report information using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about their activities. The statement of Net Assets includes all of the Cooperative's assets and liabilities. This statement provides information about the nature of the assets and the obligations of the Cooperative. In addition, this statement provides the basis for evaluating the capital structure of the Cooperative and assessing the liquidity and financial flexibility of the Cooperative.

All of the revenues and expenses for the current year are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures how well the Cooperative covered the costs for services during the past year. The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to the origins of income, the uses, and the changes in the cash balance during the reporting period.

Fiduciary Fund

The Cooperative is the fiscal agent for the Capital Library Cooperative beginning August 1, 2007. The Statement of Fiduciary Net Assets reflects the activity for the fiduciary fund. All of the Cooperative's fiduciary activities are reported in the Statement of Fiduciary Net Assets. These activities are excluded from the Cooperative's financial statements because the Cooperative cannot use these assets to finance its operations. The Cooperative is responsible for ensuring that the assets reported in this fund are used for their intended purposes.

Condensed Financial Information

Table I below compares key financial information of the Cooperative's Statement of Net Assets.

Table I:

Condensed Statement of Net Assets September 30 (in thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Total Current Assets	\$445.1	\$435.6	\$434.3
Net Capital Assets	<u>3.5</u>	<u>6.6</u>	<u>13.0</u>
Total Assets	448.6	442.2	447.3
Total Current Liabilities	<u>9.0</u>	<u>7.9</u>	<u>8.9</u>
Invested in Capital Assets	3.5	6.6	13.0
Unrestricted Assets	<u>436.1</u>	<u>427.6</u>	<u>425.4</u>
Total Net Assets	<u>\$439.6</u>	<u>\$434.3</u>	<u>\$438.4</u>

WOODLANDS LIBRARY COOPERATIVE

*Management's Discussion and Analysis
Years Ended September 30, 2007 and 2006*

Condensed Financial Information (Concluded)

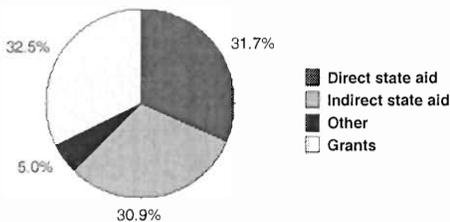
The Cooperative's net assets increased by \$5,392 this year compared to the \$4,123 decrease in the prior year. The primary reasons are a new service contract with Capital Library Cooperative of \$5,500 and a increase in interest revenue of \$2,487.

The Cooperative formed a task force to study the benefits and negatives of using the statewide ILL system (MeLCat) in order to save monies. The Governing Board approved the task forces recommendation to move MeLCat in the fall of 2007. This change will reduce Cooperative expenses by an estimated \$65,000 starting in 2008; however member libraries will have higher local costs using MeLCat. Seventeen Woodlands members will not be in MeLCat as planned by December 31, 2007 due to technical problems at MeLCat.

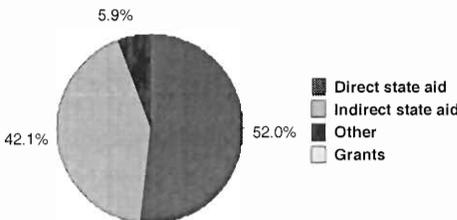
Capital Library Cooperative members decided in February 2007 to disband and join other cooperatives due to the Governor's proposed cut of 50% in State Aid for 2007-08. Thirteen libraries with a population of 321,617 residents joined Woodlands during the year. Woodlands now serves 49 libraries with a population of 859,609 located in thirteen counties in Southern Michigan.

Table II and the pie charts below compare key financial information of the Cooperative's Statement of Revenues, Expenses, and Changes in Net Assets.

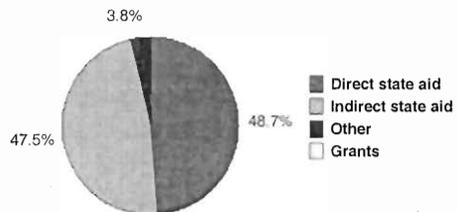
**2007
Operating Revenues**



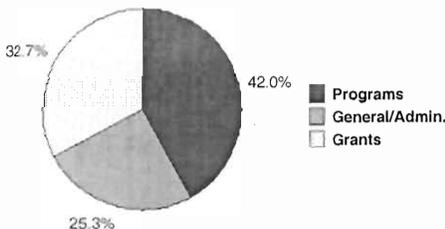
**2006
Operating Revenues**



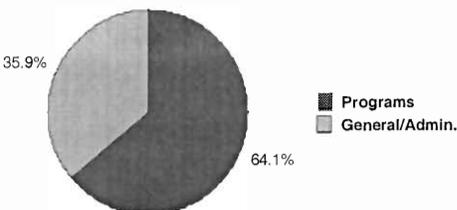
**2005
Operating Revenues**



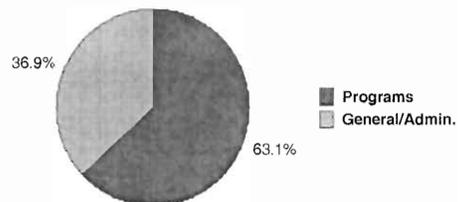
**2007
Operating Expenses**



**2006
Operating Expenses**



**2005
Operating Expenses**



WOODLANDS LIBRARY COOPERATIVE

Management's Discussion and Analysis
Years Ended September 30, 2007 and 2006

Table II:

Changes in Net Assets
Year Ended September 30
(in thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating Revenues	\$649.2	\$431.4	\$469.6
Operating Expenses	<u>662.4</u>	<u>451.6</u>	<u>471.1</u>
Operating Income	(13.2)	(20.2)	(1.5)
Net Nonoperating Revenues	<u>18.6</u>	<u>16.1</u>	<u>7.7</u>
Changes in Net Assets	5.4	(4.1)	6.2
Beginning Net Assets	<u>434.2</u>	<u>438.4</u>	<u>432.2</u>
Ending Net Assets	<u>\$439.6</u>	<u>\$434.3</u>	<u>\$438.4</u>

The Cooperative operates with one fund, an enterprise fund on a full accrual basis of accounting similar to private sector companies. The Cooperative's primary source of revenue is from direct and indirect state aid. Direct state aid accounts for 47%, while indirect state aid paid by member libraries account for 46%. State aid accounts for 93% of Woodland's income (excluding grant income). Interest revenue increased over last year as rates increased. Over the past four years State Aid decreased 20%.

Expenses for resource sharing, technology, advocacy, continuing education, and support services account for a 1% decrease over 2006 to 62%, while general and administrative costs decreased 1% to 38% because of lower contract cost and not prepaying delivery. The cost of maintaining the office continued to increase due to cost of living and health insurance.

Capital Assets and Debt Administration

Capital assets increased by \$2,434 due to an addition of a replacement web server. The depreciation expense for the year was \$5,571.

The Cooperative does not have any debt obligations.

Budgetary Highlights

Over the course of the year, the Governing Board amended the budget to take into account events that occurred during the year. Budgeted revenues were increased from \$438,996 to \$448,821 due to an increase in interest revenue, and a \$5,500 service contract with Capital Library Cooperative.

State aid is paid in two payments of 50%. The timing of the second payment was later in the fiscal year resulting in the Cooperative using its capital reserve to fund monthly bills for eleven months of the year. For several months in early 2007, the Cooperative wasn't sure if the second half of State Aid would be paid.

WOODLANDS LIBRARY COOPERATIVE

*Management's Discussion and Analysis
Years Ended September 30, 2007 and 2006*

Budgetary Highlights - Concluded

Budgeted expenses were \$454,687 and \$451,292 for 2007 and 2006 respectively. Salaries increased by 3.5%. The automation services contract decreased by 24% from 2006 with the movement to MeLCat. Office costs increased with the purchase of a replacement web server and an office chair.

Economic Factors and Next Year's Budgetary Highlights

State aid revenue for 2007-08 is based on \$1.20 cents per capita, 20% below the \$1.50 cents cap. State Aid payments are again split equally into three parts. State Aid remains an unstable funding source for Cooperatives based on the State of Michigan's budget crisis. Funding in future years could be even more dire with a proposed reduction of State Aid from \$12 million to \$6 million by the Governor. The State Librarian called for fewer cooperatives and a revised funding model. ILL and delivery, once the primary services of cooperatives, are being replaced by statewide services.

The Cooperative is changing how Interlibrary Loan (ILL) Service is provided. Woodlands will move from a vendor based system (Auto-Graphics Agent) to a statewide MeLCat ILL system. The change saves Woodlands an estimated \$65,000 per year for the Cooperative starting in 2008. The Cooperative will still provide ILL service for materials not available in MeLCat. State Aid monies will be used to pay statewide delivery costs for all member locations. Training and advocacy will be expanded.

The Library of Michigan is looking at developing core services provided by Cooperatives. Core services will most likely be defined by the State versus member libraries in each cooperative deciding core services.

The addition of thirteen new member libraries will increase Woodlands' reserve funds. The new member libraries will contribute \$0.83 per capita (321,617 population) for a total of \$266,942 to Woodlands' reserve fund.

Contacting the Cooperative's Financial Management

This financial report is designed to provide the Cooperative's citizens, taxpayers, customers, and creditors with a general overview of the Cooperative's finances. If you have any questions about this report or need additional financial information, contact the Woodlands Library Cooperative, 415 South Superior, Suite A, Albion, MI 49224-2135.

WOODLANDS LIBRARY COOPERATIVE

Statements of Net Assets
September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets		
Current Assets:		
Cash	\$421,484	\$400,265
Accounts receivable	0	2,372
Prepaid expenses	23,667	32,931
Total Current Assets	<u>445,151</u>	<u>435,568</u>
Capital Assets:		
Office equipment	30,111	30,111
Furniture and fixtures	5,204	5,204
Other equipment	32,480	30,046
	<u>67,795</u>	<u>65,361</u>
Less: Allowance for depreciation	<u>64,317</u>	<u>58,746</u>
Total Capital Assets	<u>3,478</u>	<u>6,615</u>
Total Assets	<u>448,629</u>	<u>442,183</u>
Liabilities		
Current Liabilities:		
Deposits - member libraries	674	0
Other liabilities	8,315	7,935
Total Liabilities	<u>8,989</u>	<u>7,935</u>
Net Assets		
Invested in capital assets	3,478	6,615
Unrestricted	436,162	427,633
Total Net Assets	<u>\$439,640</u>	<u>\$434,248</u>

See accompanying notes to the basic financial statements.

WOODLANDS LIBRARY COOPERATIVE

*Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended September 30, 2007 and 2006*

	2007	2006
Operating Revenues		
State aid to cooperative	\$211,411	\$232,386
State aid from members	206,217	188,684
Gates computer grant	216,700	0
Other	14,839	10,366
	649,167	431,436
 Operating Expenses		
Programs:		
Interloan and reference	70,427	68,584
Delivery	91,358	88,107
Union database	112,057	128,345
Periodical purchasing	4,200	4,200
	278,042	289,236
Gates computer grant	216,808	0
General and administrative	167,504	162,415
	662,354	451,651
Net Operating Income (Loss)	(13,187)	(20,215)
 Nonoperating Revenues (Expenses)		
Interest	18,579	16,092
	5,392	(4,123)
Change in Net Assets		
Net Assets - Beginning of Year	434,248	438,371
Net Assets - End of Year	\$439,640	\$434,248

See accompanying notes to the basic financial statements.

WOODLANDS LIBRARY COOPERATIVE

*Statements of Cash Flows
For the Years Ended September 30, 2007 and 2006*

	2007	2006
Cash Flows from Operating Activities:		
Receipts from state and members	\$434,839	\$427,595
Receipts from grants	216,700	0
Payments to suppliers	(555,241)	(357,156)
Payments to employees	(91,224)	(88,138)
	5,074	(17,699)
Cash Flows from Capital and Related Financing Activities:		
Acquisition of capital assets	(2,434)	0
Cash Flows from Investing Activities:		
Interest	18,579	16,092
	21,219	(1,607)
Net Increase (Decrease) in Cash and Cash Equivalents		
Cash and Cash Equivalents - Beginning of Year	400,265	401,872
Cash and Cash Equivalents - End of Year	\$421,484	\$400,265
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income (Loss)	(\$13,187)	(\$20,215)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	5,571	6,385
Changes in assets and liabilities:		
(Increase) Decrease in assets:		
Accounts receivable	2,372	(2,372)
Prepaid expenses	9,264	(547)
Increase (Decrease) in liabilities:		
Due to other governments	0	(143)
Due to video consortium	0	(1,326)
Deposits - member libraries	674	0
Other liabilities	380	519
	12,690	(3,869)
Total Adjustments		
Total cash provided by operating activities	\$5,074	(\$17,699)

There were no noncash investing and financing transactions for the years ending September 30, 2007 and 2006.

See accompanying notes to the basic financial statements.

WOODLANDS LIBRARY COOPERATIVE

*Capital Library Cooperative Agency Fund
Statement of Fiduciary Net Assets
September 30, 2007*

	<u>Capital Library Cooperative</u>
Assets	
Cash	<u>\$445,606</u>
Liabilities	
Deposit	<u>\$445,606</u>

See accompanying notes to the basic financial statements.

WOODLANDS LIBRARY COOPERATIVE

Notes to Financial Statements
Years Ended September 30, 2007 and 2006

Note 1 Purpose

The financial statements of the Cooperative include all accounts controlled by or dependent on the Cooperative board. The purpose of Woodlands Library Cooperative is to: (1) extend and improve access to library services and materials for each child, youth, and adult of the Cooperative region appropriate to his or her informational and recreational needs; (2) improve and strengthen resources and services of member libraries; (3) encourage continued growth and development of library services to the citizens of the State of Michigan.

Note 2 Authority

The establishment of the Cooperative is based on Public Act 89 of 1977.

Note 3 Summary of Significant Accounting Policies

The accounting policies of the Cooperative conform to accounting principles generally accepted in the United States of America applicable to governments. The financial activities of the Cooperative are recorded within one fund, categorized and described as an enterprise fund. This enterprise fund reports operations that provide services which are financed primarily by direct and indirect state aid.

Significant accounting policies followed by Woodlands Library Cooperative are described below to enhance the usefulness of the financial statements to the reader:

a) Basis of Accounting

The Cooperative's financial statements are prepared on the accrual basis of accounting; consequently, revenues are recognized when they are earned and expenses are recognized when they are incurred. Operating revenues are charges for all exchange transactions for services which include direct state aid and indirect state aid. Operating expenses are all the costs necessary to provide services and conduct programs. General and administrative costs are also operating expenses. Nonoperating revenues represent revenue sources that are primarily non-exchange in nature such as interest.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

b) Capital Assets

Items capitalized are valued at cost and depreciated by the straight-line method over the estimated useful lives of the assets. The Cooperative maintains a capitalization threshold of one thousand dollars.

Depreciation expense was \$5,571 for 2006-07 and \$6,385 for 2005-06. The following estimated lives were used to determine the depreciation expense for the periods ending September 30, 2007 and 2006:

Office Equipment	5 years
Furniture	10 years
Other Equipment	3-5 years

c) Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, Woodlands Library Cooperative considers cash and petty cash as cash and cash equivalents.

WOODLANDS LIBRARY COOPERATIVE

Notes to Financial Statements
Years Ended September 30, 2007 and 2006

Note 3 Summary of Significant Accounting Policies (Concluded)

d) Governmental Accounting Standards Board

In accordance with GASB Statement 20, the Cooperative has elected not to apply the FASB statements and interpretations issued after November 30, 1989, to its financial statements.

Note 4 Deposits With Financial Institutions

Statutes authorize Woodlands Library Cooperative to invest in obligations of the U.S. Treasury, agencies, and instrumentalities; commercial paper within the three highest rate classifications by at least two rating services; banker's acceptances of U.S. bank repurchase agreements; savings accounts and certificates of deposit with banks and savings and loan associations, or credit unions which are insured with the applicable federal agency.

Public Act 367 of 1982 (know as the Surplus Funds Investment Pool Act) enables municipalities to invest surplus operating funds in investment pools managed by qualified financial institutions. At September 30, 2007, Woodlands Library Cooperative had invested in such a fund with a local bank. The Cooperative is able to retrieve these funds without restriction and, accordingly, this amount is considered to be available cash. The local bank invests these funds in a variety of instruments including bonds and direct obligations of the United States, certificates of deposit, commercial paper rated within the three highest classifications by not less than two standard rating services, United States government or federal agency obligation repurchase agreements and bankers acceptances of the United States banks.

The Cooperative believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, and since State of Michigan legislation does not require that all deposits be collateralized, it is impractical to insure all bank deposits. As a result, the Cooperative evaluates each financial institution with which it deposits Cooperative funds and assesses the level of risk at each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The Board of Directors has adopted an investment policy authorizing certain types of investments and authorized the depositories: National City Bank and Homestead Savings Bank. The carrying amount of deposits is displayed on the balance sheet as cash.

Interest rate risk. The Cooperative's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The Cooperative will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities listed in the Cooperative's investment policy.

Concentration of credit risk. The Cooperative does not place any limits on the amount the Cooperative may deposit or invest in any one issuer.

WOODLANDS LIBRARY COOPERATIVE

Notes to Financial Statements
Years Ended September 30, 2007 and 2006

Note 4 Deposits With Financial Institutions (Concluded)

Custodial credit risk. Custodial credit risk for deposits is the risk that in the event of a bank failure, the Cooperative's deposits may not be returned or the Cooperative will not be able to recover the collateral securities in the possession of an outside party. The Cooperative has \$875,236 and \$400,265 for 2007 and 2006 respectively invested in checking accounts and money markets. The Cooperative's deposits are insured by the FDIC in the amount of \$12,236 and \$12,265 for 2007 and 2006 respectively, with uninsured deposits of \$863,000 and \$407,000 for 2007 and 2006 respectively. The Cooperative's deposits are at institutions with an established record of fiscal health and service. The Cooperative Board approves and designates a list of authorized depository institutions. The Cooperative's investment policy does not address deposit risk.

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

Note 5 Capital Assets

Capital asset activity for the year ended September 30, 2007 was as follows:

	Balance at October 1, 2006	Additions	Retirements	Balance at September 30, 2007
Capital assets being depreciated:				
Office equipment	\$30,111	\$0	\$0	\$30,111
Furniture and fixtures	5,204	0	0	5,204
Other equipment	30,046	2,434	0	30,046
Totals at historical cost	65,361	2,434	0	67,795
Less accumulated depreciation:				
Office equipment	(26,908)	(1,713)	0	(28,621)
Furniture and fixtures	(5,204)	0	0	(5,204)
Other equipment	(26,634)	(3,858)	0	(30,492)
Total accumulated depreciation	(58,746)	(5,571)	0	(64,317)
Net capital assets	\$6,615	(\$3,137)	\$0	\$3,478

Note 6 State Aid to Cooperative

The State granted aid directly to library cooperatives based on a rate per capita of \$0.395 for 2006-07 and \$0.435 for 2005-06.

Note 7 State Aid from Members

The State granted aid to public libraries belonging to a cooperative to purchase services which are provided by the cooperative. The rate per capita of \$0.395 for 2006-07 and \$0.361 for 2005-06 was based on the "qualified" populations in the service areas of the public libraries.

WOODLANDS LIBRARY COOPERATIVE

Notes to Financial Statements
Years Ended September 30, 2007 and 2006

Note 8 Expenses

The Cooperative incurred the following expenses to member libraries during the fiscal year ended September 30, 2007 and 2006 for contracted services, projects and grants:

<u>Payee</u>	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>
Monroe County Library System	\$139,924	\$154,862
Lenawee County Library	13,064	12,560
Van Buren Library	11,081	10,654
Branch County Library	7,806	7,506
Michigan Library Consortium	<u>38,495</u>	<u>37,275</u>
	<u>\$210,370</u>	<u>\$222,857</u>

Note 9 Compensated Absences

Woodlands Library Cooperative does accrue vacation pay for its employees as of the year end. The amount of unused vacation pay was \$8,315 and \$7,935 as of September 30, 2007 and 2006, respectively.

Note 10 Pension Plan

The Cooperative provides a defined contribution pension benefit plan for employees who are at least 21 years old and have completed one year of service. The plan is through Ameriprise Financial and was effective October 1, 1994. The Cooperative contributes 10% of the employee's wages to the plan and they are 100% vested immediately. Employees are not required to contribute to the plan. The costs for the fiscal years ending September 30, 2007 and 2006, were \$9,123 and \$8,814, respectively. For the fiscal year ending September 30, 2007, the covered payroll was \$91,224 out of a total payroll of \$93,865. For the fiscal year ending September 30, 2006, the covered payroll was \$88,138 out of a total payroll of \$90,780.

Note 11 Fiscal Agent for Capital Library Cooperative

Woodlands Library Cooperative will perform duties as the fiscal agent for the Capital Library Cooperative pursuant to the terms of the agreement beginning August 1, 2007. The Capital Library Cooperative was dissolved effective September 30, 2007. A majority of the Capital Library Cooperative's members transferred to the Woodlands Library Cooperative, and the remaining members transferred to another State Library Cooperative. Receipts and disbursements are recorded in the Capital Library Cooperative agency fund. The detail for the Capital Library Cooperative agency fund is on page 18. The remaining funds in the agency fund will be totally disbursed by September 30, 2008 based on a disbursement formula.

WOODLANDS LIBRARY COOPERATIVE

*Schedules of General and Administrative Expenses
September 30, 2007 and 2006*

	<u>2007</u>	<u>2006</u>
Salaries	\$91,224	\$88,138
Board members	1,737	1,489
Payroll taxes	6,639	6,945
Employee benefits	19,626	19,561
Pension	9,123	8,814
Workers' compensation	271	415
Postage	538	816
Office supplies	1,085	800
Office internet	500	500
Periodicals	175	172
Contracted services	3,300	3,200
Professional services	4,245	4,140
Memberships	1,039	1,139
Telephone	174	1,399
Travel	4,351	3,772
Printing	0	280
General insurance	1,226	534
Repair and maintenance	3,277	532
Office rent	8,400	8,400
Training	4,244	4,106
Bank charges	551	475
Professional collection	208	287
Member purchasing	0	116
Depreciation	5,571	6,385
	<u>\$167,504</u>	<u>\$162,415</u>

WOODLANDS LIBRARY COOPERATIVE

*Capital Library Cooperative Agency Fund
Statement of Changes in Assets and Liabilities
September 30, 2007*

	Balance October 1, 2006	Receipts	Disbursements	Balance September 30, 2007
Assets				
Cash	<u>\$0</u>	<u>\$477,752</u>	<u>\$32,146</u>	<u>\$445,606</u>
Liabilities				
Deposit	<u>\$0</u>	<u>\$477,752</u>	<u>\$32,146</u>	<u>\$445,606</u>

Schedule of Receipts and Disbursements

	2007
Deposit - Beginning of year	\$0
Receipts	
Cash	324,837
State aid to cooperative	82,724
State aid from members	68,583
Interest	1,608
Total Receipts	<u>477,752</u>
Disbursements	
Delivery	4,750
Union database	18,462
General and administrative	8,934
Total Disbursements	<u>32,146</u>
Deposit - Ending of year	<u>\$445,606</u>



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Certified Public Accountants

Board of Directors
Woodlands Cooperative Library
Calhoun County, Michigan

In planning and performing our audit of the financial statements of Woodlands Library Cooperative as of and for the years ended September 30, 2007 and 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Cooperative's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 Cooperative's internal control.

A new auditing standard, SAS No. 112 "*Communicating Internal Control Related Matters Identified in an Audit*" is effective for audits after December 15, 2006. Auditors are now required to inform management and those charged with governance about significant deficiencies and material weaknesses that come to our attention.

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 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.

A material weakness is a significant deficiency, or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, we identified the following deficiency in internal control that we consider to be significant deficiency.

Financial Statements

As is common with smaller and medium sized entities, the Cooperative has historically relied on their independent auditors to assist in the preparation of the financial statements and footnotes. As a compensating control, the Cooperative carefully reviews the draft of the financial statements and notes prior to approving and accepting responsibility for their content and presentation.

Board of Directors
Woodlands Library Cooperative

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This communication is intended solely for the information and use of the Board of Directors, management, others within the Cooperative and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Cooley Hehl Wohlgamuth & Carlton

November 1, 2007