

VANMASSENHOVE, KEARLY, TAPHOUSE & FAULMAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
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NORTHLAND LIBRARY COOPERATIVE

Annual Financial Statements
September 30, 2007

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 Northland Library Cooperative	County Alpena
Fiscal Year End 09/30/06	Opinion Date 12/07/07	Date Audit Report Submitted to State 1/15/08	

We affirm that:

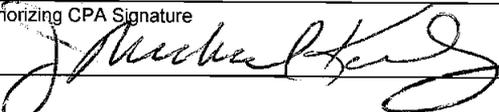
We are certified public accountants licensed to practice in Michigan.

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) VanMassenhove, Kearly, Taphouse & Faulman PC		Telephone Number 989-354-2111	
Street Address 120 N. Ripley Street		City Alpena	State Zip MI 49707
Authorizing CPA Signature 		Printed Name J. Michael Kearly	License Number 1101011817

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Independent Auditors' Report

Northland Library Corporative
Alpena, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Northland Library Cooperative as of and for the year ended September 30, 2007, which collectively comprise the Northland Library Cooperative's basic financial statements as listed in the index. These financial statements are the responsibility of Northland Library 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure 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 respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Northland Library Cooperative as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, there of for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3a through 3e and 23, 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 inquires 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Northland Library Cooperative basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Van Massenhove, Karl Tephane Laulome PC

December 7, 2007

**Northland Library Cooperative
Management's Discussion & Analysis
For the Year Ended September 30, 2007**

Our discussion and analysis of the Northland Library Cooperative's financial performance provides an overview of the Northland Library Cooperative's financial activities for the fiscal year ended September 30, 2007.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Northland Library Cooperative financially as a whole. The *Financial Statements* provide information about the activities of the whole Northland Library Cooperative presenting both an aggregate view of the Northland Library Cooperative finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For Government activities, these statements tell how services were financed in the short-term as well as what remains for future spending.

The fund financial statements look at the Northland Library Cooperative's operations in more detail than the Northland Library Cooperative's wide financial statements by providing information about the Northland Library Cooperative's most significant fund – the General fund. Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the Northland Library Cooperative's wide financial statements for the Northland Library Cooperative's internet operation.

The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basis Financial Statements

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the General Fund (Required supplemental Information)

**Northland Library Cooperative
Management's Discussion & Analysis
For the Year Ended September 30, 2007**

Reporting the Northland Library Cooperative as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the Northland Library Cooperative's finances is, "is the Northland Library Cooperative better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Northland Library Cooperative as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the Northland Library Cooperative's net assets as a way to measure the Northland Library Cooperative's financial position. The change in net assets provides the reader a tool to assist in determining whether the Northland Library Cooperative's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as facility conditions in arriving at their conclusion regarding the overall health of the Northland Library Cooperative.

Reporting the Northland Library Cooperative's Most Significant Funds

Fund Financial Statements

The Northland Library Cooperative's fund financial statements provide detailed information about the most significant funds – not the Northland Library Cooperative as a whole. The Northland Library Cooperative's two types of funds, Governmental and Proprietary uses different accounting approaches as further described in the notes to the financial statements.

Governmental Funds

Most of the Northland Library Cooperative's activities are reported in Governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The Governmental fund statements provide a detailed short-term view of the Northland Library Cooperative's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the Northland Library Cooperative's programs. The relationship (or differences) between Governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and Governmental funds is reconciled in the basic financial statements.

**Northland Library Cooperative
Management's Discussion Analysis
For the Year Ended September 30, 2007**

Propriety Funds

These funds are reported in fund financial statements and generally report services for which the Northland Library Cooperative charges a fee. Enterprise funds essentially encompass the same functions reported as business-type activities in the Northland Library Cooperative-wide statements.

This funds presents the Northland Library Cooperative's Internet operation. The Northland Library Cooperative has sole authority to set rates and is financially responsible for the integrity of the system. The financial statements reflect the financial position and results of operations for the system for the year 2006 - 2007. The Fund Balance from this Fund was transferred to the General Fund due to sale of internet operation in September, 2006.

Northland Library Cooperative Wide Financial Analysis

Financial position - The statement of net assets provides the perspective of the Northland Library Cooperative as a whole. Exhibit A provides a summary of the Northland Library Cooperative's net assets as of September 30, 2007 and 2006.

Exhibit A

	Governmental Activities		Business - Type Activities		Total	
	2007	2006	2007	2006	2007	2006
<u>Assets</u>						
Cash and Investments	\$ 492,293	\$ 228,753	\$ -0-	\$ 188,444	\$ 492,293	\$ 417,197
Accounts Receivable	2,575	9,742	-0-	-0-	2,575	9,742
Prepaid Expenses	734	3,290	-0-	-0-	734	3,290
Capital Assets Less Accumulated Depreciation	46,659	39,992	-0-	-0-	46,659	39,992
Total Assets	542,261	281,777	-0-	188,444	542,261	470,221
<u>Liabilities</u>						
Deposit	25,000	-0-	-0-	-0-	25,000	-0-
Deferred Revenues	-0-	9,039	-0-	-0-	-0-	9,039
Accrued Vacation	2,516	1,104	-0-	-0-	2,516	1,104
Total Liabilities	27,516	10,143	-0-	-0-	27,516	10,143
<u>Net Assets</u>						
Investment in Capital Assets	46,659	39,992	-0-	-0-	46,659	39,992
Unrestricted	468,086	231,642	-0-	188,444	468,086	420,086
Total Net Assets	\$ 514,745	\$ 271,634	\$ -0-	\$ 188,444	\$ 514,745	\$ 460,078

**Northland Library Cooperative
Management's Discussion Analysis
For the Year Ended September 30, 2007**

Exhibit A, on the previous page, focuses on net assets. The Northland Library Cooperative's total net assets were \$514,745 at September 30, 2007. Capital assets net of related debt, totaling \$46,659 compares the original costs, less depreciation.

The \$468,086 of unrestricted net assets of Governmental and business-type activities represents the *accumulated* results of all past years' operations. The operating results of the General, Capital Projects and Enterprise Funds will have a significant impact on the change in unrestricted net assets from year to year.

Results of operations - The results of this year's operations for the Northland Library Cooperative as a whole are reported in the statement of activities, which shows the changes in net assets for the year ended September 30, 2007 and 2006. Exhibit B provides a summary of the Northland Library Cooperative operations for the year.

Exhibit B

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue						
Program services:						
Charges for services	\$ -0-	\$ 8,435	\$ -0-	\$ 65,530	\$ -0-	\$ 73,965
Grant & Contributions	80,540	3,878	-0-	-0-	80,540	3,878
General Revenue:						
State Aid	257,567	263,394	-0-	-0-	257,567	263,394
Universal Services Fund	2,528	1,724	-0-	-0-	2,528	1,724
Interest	10,234	7,443	-0-	-0-	10,234	7,443
PAC 2	177	6,283	-0-	-0-	177	6,283
Sale of Internet	-0-	-0-	-0-	6,440	-0-	6,440
Special item - Transfer from Proprietary Fund	188,444	-0-	-0-	-0-	188,444	-0-
Total Revenue	<u>539,490</u>	<u>291,157</u>	<u>-0-</u>	<u>71,970</u>	<u>539,490</u>	<u>363,127</u>
Function & Program Expenses						
General Government	128,929	120,328		-0-	128,929	120,328
Grants	67,100	-0-		-0-	67,100	-0-
Information Services	65,352	62,080		-0-	65,352	62,080
Catalog Services	(3,075)	47,902		-0-	(3,075)	47,902
Library for the Blind and Physically Handicapped	37,967	45,962		-0-	37,967	45,962
PAC 2	106	7,120		-0-	106	7,120
Internet Services	-0-	-0-	-0-	58,839	-0-	58,839
Special item - Transfer from General Fund	-0-	-0-	188,444	-0-	188,444	-0-
Total Expenditures	<u>296,379</u>	<u>283,392</u>	<u>188,444</u>	<u>58,839</u>	<u>484,823</u>	<u>342,231</u>
Increase (Decrease) in Net Assets	<u>\$ 243,111</u>	<u>\$ 7,765</u>	<u>\$(188,444)</u>	<u>\$ 13,131</u>	<u>\$ 54,667</u>	<u>\$ 20,896</u>

**Northland Library Cooperative
Management's Discussion & Analysis
For the Year Ended September 30, 2007**

As reported in the statement of activities, the cost of all of our *Governmental and business-type* activities this year was \$484,823, of which \$188,444 was a fund transfer to General fund from Business-Type activity.

The Northland Library Cooperative experienced an increase (decrease) in net assets of \$54,667, mainly due to actual income being greater than anticipated. There were no significant revenue increases this year. The increase (decrease) in net assets differs from the change in fund balances and a reconciliation appears in the financial statements.

General Fund Budgetary Highlights

Over the course of the year, the Northland Library Cooperative revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Northland Library Cooperative's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Budgeted revenue were increased about \$78,000 due to an unexpected grant
- Budgeted expenditure was increased about \$20,000 during the fiscal year. The change was due to a boiler replacement.

Factors Expected to Have an Effect on Future Operations

We expect to see a decline in state aid next year as the State of Michigan continues to face challenges in balancing its budget. We will need to adjust Northland Library Cooperative expenditures in response to any revenue shortfall.

Contacting The Northland Library Cooperative

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Northland Library Cooperative's finances and to show the Northland Library Cooperative's accountability for the money it receives. If you have questions about this report or need additional information, contact the Northland Library Cooperative at 316 E. Chisholm, Alpena, MI 49707.

Northland Library Cooperative
Statement of Net Assets
September 30, 2007

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<u>Assets</u>			
Cash and Investments	\$492,293	\$ -0-	\$492,293
Accounts Receivable	2,575	-0-	2,575
Prepaid Expenses	734	-0-	734
Capital Assets Less Accumulated Depreciation	46,659	-0-	46,659
Total Assets	542,261	-0-	542,261
<u>Liabilities</u>			
Deposit - Note 6	25,000	-0-	25,000
Accrued Vacation	2,516	-0-	2,516
Total Liabilities	27,516	-0-	27,516
<u>Net Assets</u>			
Investment in Capital Assets Unrestricted	46,659	-0-	46,659
	468,086	-0-	468,086
Total Net Assets	\$514,745	\$ -0-	\$514,745

Northland Library Cooperative
Statement of Activities
For the Year Ended September 30, 2007

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants/Contributions	Governmental Activities	Business-Type Activities	
					Total	
Primary government:						
General Government	\$ 128,929	\$ -0-	\$ 4,206	\$ (124,723)	\$ -0-	\$ (124,723)
Information Services	65,352	-0-	-0-	(65,352)	-0-	(65,352)
Catalog Services	(3,075)	-0-	-0-	3,075	-0-	3,075
Library for the Blind and Physically Handicapped	37,967	-0-	9,234	(28,733)	-0-	(28,733)
PAC 2	106	-0-	177	71	-0-	71
PAC Hug Grant	67,100	-0-	67,100	-0-	-0-	-0-
Total Governmental Activities	296,379	-0-	80,717	(215,662)	-0-	(215,662)
Business-type activities:						
Internet	-0-	-0-	-0-	-0-	-0-	-0-
Total	\$ 296,379	\$ -0-	\$ 80,717	(215,662)	-0-	(244,324)
General revenues:						
State Aid				257,567	-0-	257,567
Universal Service Fund				2,528	-0-	2,528
Interest				10,234	-0-	10,234
Special Item - Transfer from Proprietary Fund - Note 7				188,444	(188,444)	-0-
Total Government Revenues				458,773	(188,444)	270,329
Change in net assets				243,111	(188,444)	54,667
Net assets - beginning of year				226,833	188,444	415,277
Net assets - end of year				\$ 469,944	\$ -0-	\$ 469,944

**Northland Library Cooperative
Governmental Fund
Balance Sheet
September 30, 2007**

	<u>Assets</u>	<u>General</u>
Cash and Investments		\$ 492,293
Accounts Receivable		2,575
Prepaid Expenses		<u>734</u>
Total Assets		<u>\$ 495,602</u>
 <u>Liabilities and Fund Balance</u> 		
<u>Liabilities</u>		
Deposit - Note 6		\$ 25,000
Accrued Vacation		<u>2,516</u>
Total Liabilities		<u>27,516</u>
 <u>Fund Balance</u>		
Undesignated		<u>468,086</u>
Total Liabilities & Fund Balance		<u>\$ 495,602</u>

Northland Library Cooperative
Reconciliation of Balance Sheet of Governmental Fund
to the Statement of Net Assets
September 31, 2007

Total fund balances - governmental funds \$468,086

Amounts reported for governmental activities in the statements
of activities are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the funds:

Cost of the capital assets

374,629

Accumulated depreciation

(327,970)

46,659

Total net assets - governmental activities

\$514,745

**Northland Library Cooperative
Government Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended September 30, 2007**

<u>Revenues</u>	<u>General</u>
Direct State Aid	\$ 131,595
Indirect State Aid	83,889
LBPH State Aid	42,083
Universal Service Fund	2,528
PAC Hug Grant	67,100
Donations	13,440
PAC 2	177
Interest Income	10,234
Total Revenues	<u>351,046</u>
<u>Expenditures</u>	
Administrative Services	135,596
Information Services	65,352
Catalog Services	(3,075)
Library for the Blind and Physically Handicapped	37,967
PAC 2	106
PAC Hug Grant	67,100
Total Expenditures	<u>303,046</u>
Excess (Deficiency) of Revenues over (under) Expenditures	48,000
Special Item - Transfer from Proprietary Fund - Note 7	<u>188,444</u>
Net change in Fund Balance	236,444
Fund Balance - beginning of year	<u>231,642</u>
Fund balance - end of year	<u>\$ 468,086</u>

Northland Library Cooperative
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2007

Net change in fund balances - total governmental funds	\$ 236,444
Amounts reported for governmental activities in the statements of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation;	
Capital Outlays	11,975
Depreciation expense	<u>(5,308)</u>
Change in net assets of governmental activities	<u>\$ 243,111</u>

Northland Library Cooperative
Statement of Revenue, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended September 30, 2007

Operating Revenues		
Internet Charge	\$	-0-
Total Operating Revenues		<u>-0-</u>
Operating Expenses		
Salaries & Wages		-0-
Professional & Contractual		-0-
Office Supplies		-0-
Communications		-0-
Rent		-0-
Audit		-0-
Total Operating Expenses		<u>-0-</u>
Operating (Loss) - Change in Net Assets		
Special Item - Transfer to General Fund		(188,444)
Net Assets - Beginning of Year		<u>188,444</u>
Net Assets - End of Year	\$	<u>-0-</u>

Northland Library Cooperative
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2007

Cash Flows From Operating Activities:	\$	-0-
Cash Flows from Capital and Related Financing Activities		-0-
Cash Flows from Investing Activities		-0-
Special Item - Transfer to General Fund		<u>(188,444)</u>
Net Increase (decrease) in cash and cash equivalents		(188,444)
Cash and Cash Equivalents, beginning of year		<u>188,444</u>
Cash and Cash Equivalents, end of year	\$	<u><u>-0-</u></u>

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Net Operating Income (Loss)	\$	-0-
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities		<u>-0-</u>
Net Cash Provided by Operating Activities	\$	<u><u>-0-</u></u>

Northland Library Cooperative
Notes to Financial Statements
For the Year Ended September 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Northland Library Cooperative conform to United States of America generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies used by the Northland Library Cooperative.

Reporting Entity

The Northland Library Cooperative (the Cooperative), a not-for-profit entity established under the laws of the State of Michigan, [links a group of Northern Michigan public libraries in areas of common interest and benefit]. These areas include interlibrary lending, resource sharing services, advocacy, consulting, continuing education, and the Library for the Blind and Physically Handicapped. The Cooperative is supported primarily through Federal and State Aid administered by the Library of Michigan.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the propriety fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Northland Library Cooperative
Notes to Financial Statements
For the Year Ended September 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Northland Cooperative Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. [Expenditures generally are recorded when a liability is incurred, as under accrual accounting.] Expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State-shared revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal period.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

The Northland Library Cooperative reports the following major governmental funds:

General Fund – The General Fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from state distributions, grants and other intergovernmental revenues.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments. Investments are stated at fair value.

Receivables

All trade receivables are shown as net of allowance for uncollectible amounts.

Northland Library Cooperative
Notes to Financial Statements
For the Year Ended September 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets – Capital assets, which include land, buildings, equipment and infrastructure assets are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$10,000. 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. Costs of normal repair and maintenance that do not add value or materially extend asset lives are not capitalized.

Land, building, equipment and infrastructure is depreciated using the straight-line method over the following useful lives:

Buildings	20 Years
Vehicles	4 Years
Office and computer equipment	5 to 10 Years

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

Use of Estimates – The process of preparing the basic financial statements in conformity with United States of America generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 – BUDGETS

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of governments prior to the expenditure of monies in a fiscal year.

The Northland Library Cooperative follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Northland Library Cooperative's Director submits to the Board a proposed budget prior to October 1 of each year. The budget includes proposed expenditures and the means of financing them.

Northland Library Cooperative
Notes to Financial Statements
For the Year Ended September 30, 2007

NOTE 2 – BUDGETS (CONTINUED)

2. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adapted to the functional level.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board) for the General Fund is presented as Required Supplemental Information.

NOTE 3 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Northland Library Cooperative to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Northland Library Cooperative is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rates within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Government's deposits are in accordance with statutory authority.

At year-end, the Northland Library Cooperative's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-Type Activities	Total
Cash and investments	\$ <u>492,293</u>	\$ <u>-0-</u>	\$ <u>492,293</u>

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	\$ 492,243
Petty cash and cash on hand	50
Total	\$ <u>492,293</u>

The bank balance of the Northland Library Cooperative's deposits is \$500,556, of which \$200,000 is covered by federal depository insurance.

Northland Library Cooperative
Notes to Financial Statements
For the Year Ended September 30, 2007

NOTE 4 - CAPITAL ASSETS

	Balance September 30, 2006	Additions	Deletions	Balance September 30, 2007
<u>Governmental Activities:</u>				
Equipment	\$ 220,655	\$ -0-	\$ -0-	\$ 220,655
Vehicle	20,809	-0-	-0-	20,809
Land & Building	121,190	11,975	-0-	133,165
	<u>362,654</u>	<u>11,975</u>	<u>-0-</u>	<u>374,629</u>
Less Accumulated Depreciation	(322,662)	(5,308)	-0-	(327,970)
Total	<u>\$ 39,992</u>	<u>\$ 6,667</u>	<u>\$ -0-</u>	<u>\$ 46,659</u>
<u>Business Type Activities:</u>				
Equipment	\$ 9,125	\$ -0-	\$ (9,125)	\$ -0-
Less Accumulated Depreciation	(9,125)	-0-	9,125	-0-
Total	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Northland Library Cooperative
Notes to Financial Statements
For the Year Ended September 30, 2007

NOTE 5 – RETIREMENT PLANS

The Cooperative contributes to the Michigan Municipal Employees Retirement System (MMERS) through the County of Alpena, which is a multiple-employer retirement system that covers all eligible employees of the County. The Cooperative's portion of the payroll for employees covered by the system for the year ended December 31, 2006 was \$65,386.

As of December 31, 2006, the annual reporting date of the Michigan Municipal Employee's Retirement System, participant data related to Northland Library Cooperative participants in the pension plan was as follows:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	3
Active plan participants vested	2
Vested former members	<u>3</u>
Total	<u>8</u>

The MMERS was organized pursuant to Section 12a of Act No. 156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12a), as amended, State of Michigan. The MMERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission.

Members do not contribute any annual compensation.

Benefits vest after six or more years of service, with rights to a deferred benefit commencing at age 60 (age 50 or 55 in certain cases).

This pension plan provides the following provisions: Normal Retirement, Deferred Retirement, Service Retirement Allowance, Disability Retirement Allowance, Non-Duty Death Allowance, Duty-Connected Death, and Post Retirement Adjustments.

Normal Retirement – A member may retire after reaching the age of 60 with six or more years of service, age 55 with 15 or more years of credited service (reduced benefit unless Benefit F55 is in effect), or upon reaching age 50 with 25 or more years of credited service (reduced benefit unless Benefit F50 is in effect).

Deferred Retirement – Termination of membership before age 60 other than by retirement or death, after 10 years of credited service (8 or 6 year if Benefit V-8 or V-6 is adopted). Retirement allowance begins upon application and satisfaction of the eligibility requirements for retirement. The deferred retirement allowance is computed in the same

Northland Library Cooperative
Notes to Financial Statements
For the Year Ended September 30, 2007

NOTE 5 – RETIREMENT PLANS (CONTINUED)

manner as a service retirement allowance, based on the benefit program in effect as of the date of termination of membership.

Rights to an allowance are forfeited if the member's accumulated contributions are withdrawn after termination of employment.

Service Retirement Allowance – Credited service at time of termination of membership multiplied by

Benefit B-1—1.7% of FAC

Benefit B-2—2.0% of FAC

The retirement allowance is reduced $\frac{1}{2}$ of 1 percent for each completed month that retirement precedes the age at which full normal retirement benefits are available.

Disability Retirement Allowance – Total and permanent disability while employed by a participating municipality and after acquiring 10 or more years of credited services. The service requirement is waived if the disability is from service connected causes.

The allowance is computed in the same manner as a service retirement allowance except that the reduction for retirement before age 60 is not applied.

If a disability is from service-connected causes, the amount of retirement allowance shall be computed as if the member has acquired exactly six years of credited service if the actually acquired credit service is less than six years.

Non-Duty Death Allowance – If a member or vested former member with six or more years of service dies before retirement, a monthly survivor allowance may be payable.

A named contingent survivor beneficiary (if any) will receive a retirement allowance computed in the same manner as a service retirement allowance, but reduced to reflect an Option II (100% joint and survivor) election. The reduction for retirement before age 60 is not applied.

If there is no named beneficiary and the member leaves a spouse, the spouse will receive survivor allowance. Payment of a retirement allowance to the surviving spouse of a deceased member commences immediately. Payment of a retirement allowance to a surviving spouse of a deceased vested former member commences on the date the member would have first satisfied a Section 10 age and service requirement for an unreduced service retirement

Northland Library Cooperative
Notes to Financial Statements
For the Year Ended September 30, 2007

NOTE 5 – RETIREMENT PLANS (CONTINUED)

allowance. The amount of a surviving spouse's retirement allowance shall be 85 percent of the deceased member's or deceased vested former member's accrued retirement allowance computed in the same manner as a service retirement allowance, based on service and final average compensation at time of death.

If there is no named beneficiary and no retirement allowance being paid to a surviving spouse, unmarried children under age 21 will be paid an equal share of 50 percent of the deceased member's or deceased vested former member's accrued retirement allowance. The reduction for retirement before age 60 is not applied.

Duty Connected Death – A duty death allowance computed in the same manner as a non-duty death allowance may be payable to a spouse or children if death occurs as the result of performance of duty with a participating municipality. The six year service requirement is waived, and the minimum benefit is 25 percent of the deceased member's final average compensation.

If no retirement allowance becomes payable at death, the member's accumulated contributions are paid to his or her beneficiary.

The Cooperative makes annual contributions based on the annual actuarial valuations.

Funding Status and Progress

The amount shown below as the "pension benefit obligation" is based on a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to: (1) help users assess the plan's funding status of the system on a going-concern basis; (2) assess progress made in accumulating sufficient assets to pay benefits when due; and (3) make comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The pension benefit obligation was determined as part of an actuarial valuation of the plan as of December 31, 2004. Significant actuarial assumptions used in determining the pension benefit obligation include (a) a rate of return on the investment of present and future assets of 8.0 percent per year compounded annually; (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation; (c) additional projected salary increases ranging from 0.0 percent to 4.2 percent per year, depending on age, attributable to seniority/merit; and (d) the assumption that benefits will increase 2.5% annually after retirement, for persons under Benefit E-1 or E-2.

Northland Library Cooperative
Notes to Financial Statements
For the Year Ended September 30, 2007

NOTE 5 – RETIREMENT PLANS (CONTINUED)

At December 31, 2006, the unfunded pensions benefit obligations for Alpena County was \$3,351,028 determined as follows:

The following information has been prepared to provide the information necessary to comply with GASB Statements Number 25 and 27. Statement 25 is effective for fiscal years beginning after June 15, 1996 and Statement 27 is effective for fiscal years beginning after June 15, 1997.

All entries and the annual employer contribution amount were based on the actuarial methods and assumptions used in the December 31, 2006 actuarial valuation. The entry age normal actuarial method was used to determine the disclosure entries.

GASB 25 Information (as of 12/31/2006)

Actuarial Accrued Liability

Retirees and beneficiaries currently receiving benefits	\$5,747,845
Terminated employees (vested former members) not yet receiving benefits	636,924
Non-vested terminated employees (pending refunds of Accumulated member contributions)	7,251
Current employees – Accumulated employee contributions including allocated investment income	264,020
Employer financed	<u>7,207,991</u>
Total Actuarial Accrued Liability	13,864,031
Net Assets Available for Benefits at Actuarial Value	<u>10,513,003</u>
(Market Value is \$9,547,512)	
Unfunded (Overfunded) Actuarial Accrued Liability	<u>\$ 3,351,028</u>

GASB 27 Information (as of 12/31/2007)

Fiscal Year Beginning	January 1, 2008
Annual Required Contribution (ARC)	\$449,568*
Amortization Factor Used – Underfunded Liabilities (30 years)	0.054719
Amortization Factor Used – Underfunded Liabilities (28 years)	0.058519

Northland Library Cooperative
Notes to Financial Statements
For the Year Ended September 30, 2007

NOTE 5 – RETIREMENT PLANS (CONTINUED)

Amortization Factor Used – Underfunded Liabilities (22 years)	0.085453
Amortization Factor Used – Underfunded Liabilities (30 year level \$)	0.119963

*Based on valuation payroll, but the actual required contribution will be based on current monthly payroll (during the fiscal year beginning January 1, 2007) times the computed employer contribution rate.

At December 31, 2006, Northland Library Cooperative had actuarial accrued liabilities greater than valuation assets of \$18,327.

Contributions Required and Contributions Made

MMERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2004 were determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

Beginning January 1, 2008 Annual required contribution will be \$449,568 using amortization factor of 0.054719 for underfunded liabilities (30 years), 0.058519 for overfunded liabilities (28 years).

During the fiscal year ended December 31, 2006, employer contributions for Alpena County were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2004. The projected covered payroll represented by employer contributions during that year is compared using actual monthly. Employer contributions for Northland Library Cooperative for the year ended September 30, 2007 were \$3,996.

The effect of changes in actuarial assumptions or methods affecting the December 31, 2004 actuarial valuation and the effect of changes in benefit provisions, if any, on the computed employer contribution was not computed.

Significant actuarial assumptions used to compute contribution requirements were the same as those used to compute the standardized measure of the pension benefit obligation.

Northland Library Cooperative
Notes to Financial Statements
For the Year Ended September 30, 2007

NOTE 6 – DEPOSIT

The Northland Library Cooperative entered into a purchase agreement for sale of its Building and Improvements for \$125,000. The \$25,000 is a deposit on that sale.

NOTE 7 – PROPRIETARY FUND

The Internet Service was sold September 30, 2006 to the Iserv Company LLC. In 2007 the Fund Balance was transferred to the General Fund.

Northland Library Cooperative
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended September 30, 2007

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variances with Final Budget Favorable (Unfavorable)</u>
Revenues				
Direct State Aid	\$ 133,298	\$ 131,595	\$ 131,595	\$ -0-
Indirect State Aid	82,780	83,889	83,889	-0-
LBPH State Aid/Grants	42,083	42,083	42,083	-0-
Universal Service Fund	2,300	2,528	2,528	-0-
PAC Hug Grant	-0-	67,100	67,100	-0-
Donations	8,053	13,440	13,440	-0-
Contract Income	500	-0-	-0-	-0-
Conference Income	200	-0-	-0-	-0-
PAC 2	-0-	177	177	-0-
Interest Income	3,500	10,234	10,234	-0-
Total Revenues	<u>272,714</u>	<u>351,046</u>	<u>351,046</u>	<u>-0-</u>
Expenditures				
Administrative Services	163,693	135,571	135,596	(25)
Information Services	70,118	65,352	65,352	-0-
Catalog Services	2,000	(3,075)	(3,075)	-0-
Library for the Blind and Physically Handicapped	47,603	37,967	37,967	-0-
PAC 2	-0-	106	106	-0-
PAC Hug Grant	-0-	67,100	67,100	-0-
Total Expenditures	<u>283,414</u>	<u>303,021</u>	<u>303,046</u>	<u>(25)</u>
Excess (Deficiency) of Revenues over (under Expenditures	(10,700)	48,025	48,000	(25)
Special Item - Transfer from Proprietary Fund - Note 7	-0-	-0-	188,444	188,444
Net change in Fund Balance	<u>(10,700)</u>	<u>48,025</u>	<u>236,444</u>	<u>188,419</u>
Fund balance - beginning of year	<u>231,642</u>	<u>231,642</u>	<u>231,642</u>	<u>-0-</u>
Fund Balance - end of year	<u>\$ 220,942</u>	<u>\$ 279,667</u>	<u>\$ 468,086</u>	<u>\$ 188,419</u>

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December 7, 2007

Northland Library Cooperative
316 E. Chisholm
Alpena, MI 49707

We have audited the financial statements of Northland Library Cooperative for the year ended September 30, 2007, and have issued our report thereon dated December 7, 2007. Professional standards require that we provide you with the following information related to our audit.

Internal Control Over Financial Reporting

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

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

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 over financial reporting. We consider the following deficiency to be a significant deficiency in internal control over financial reporting.

Finding 1 – Preparation of Financial Statements in Accordance with Accounting Principles Generally Accepted in the United States of America

- Criteria:** All Michigan governments are required to prepare financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). This is a responsibility of the Cooperative's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
- Condition:** As is the case with many smaller and medium-sized entities, the Cooperative has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Cooperative's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the Cooperative's *internal* controls.
- Cause:** This condition was caused by the Cooperative's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Cooperative to perform this task internally.
- Effect:** As a result of this condition, the Cooperative lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
- View of Responsible Officials:** The Cooperative has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Cooperative to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

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 the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

This report is intended solely for the information and use of Northland Library Cooperative, Michigan Department of Treasury, Management, and others within the government unit and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which upon acceptance by Northland Library Cooperative, is a matter of public record.

We appreciate the opportunity to serve Northland Library Cooperative. If you have any questions, or if we can be of further services, please do not hesitate to contact us.

Sen Marshall, Andy Thompson & Paulson PL