BUSS & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

SUBURBAN LIBRARY COOPERATIVE

County of Macomb, Michigan

FINANCIAL REPORT

WITH SUPPLEMENTAL INFORMATION

PREPARED IN ACCORDANCE WITH GASB 34

September 30, 2006

Michigan Department of Treasury
496 (02/06)

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	Local Unit Name	County
LIBRARY COOP ☐County ☐City ☐Twp ☐Village ☒Other	SUBURBAN LIBRARY COOPERATIVE	MACOMB

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
9/30/06	11/8/06	11/30/06

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	☒	
The letter of Comments and Recommendations	☒	
Other (Describe)	☐	

Certified Public Accountant (Firm Name)	Telephone Number		
BUSS & COMPANY, P.C.	586-263-8200		
Street Address	**City**	**State**	**Zip**
42550 GARFIELD, SUITE 105	CLINTON TWP.	MI	48038

Authorizing CPA Signature	Printed Name	License Number
Joseph Brandenburg	JOSEPH BRANDENBURG	1101020178

BUSS & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

SUBURBAN LIBRARY COOPERATIVE
County of Macomb, Michigan
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September 30, 2006

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BUSS & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

INDEPENDENT AUDITOR'S REPORT

November 8, 2006

Board of Trustees
Suburban Library Cooperative
County of Macomb, Michigan

Honorable Board Members:

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 Suburban Library Cooperative as of September 30, 2006, and for the year then ended which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Suburban 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 disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the remaining fund information of the Suburban Library Cooperative as of September 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

BUSS & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

The management's discussion and analysis on pages 3 through 5 and budgetary comparison schedule on page 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 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Suburban Library Cooperative's basic financial statements. The other supplemental information is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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.

Respectfully,

BUSS & COMPANY, P.C.

Buss & Company, P.C.

Certified Public Accountants

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SUBURBAN LIBRARY COOPERATIVE
County of Macomb, Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006

Using this Annual Report

This annual report consists of four parts - *Management's discussion and analysis* (this section), the *basic financial statements*, *required supplemental information*, *and other supplemental information*. The basic financial statements include information that presents two different views of the Cooperative:

- The *government-wide financial statements* provide both *long-term* and *short-term* information about the Cooperative's *overall* financial status. The statement of net assets and the statement of activities provide information about the activities of the Cooperative as a whole and present a longer-term view of the Cooperative's finances. These statements tell how these services were financed in the short term as well as what remains for future spending.
- The fund financial statements include information on the Cooperative in more detail than the government-wide financial statements. These *Fund Financial Statements* focus on current financial resources and provide a more detailed view about the accountability of the Cooperative's sources and uses of funds. The Fiduciary Fund financial statements provide information about activities for which the Cooperative is solely acting as an agent for a non-profit organization.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplemental information and other supplemental information* that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below provides key financial information in a condensed format for the current year and prior year.

	2006	2005
Current assets	$3,268,306	$2,884,954
Capital assets	141,353	268,455
Total Assets	$3,409,659	$3,153,409
Other liabilities	$ 565,605	$ 523,495
Total Liabilities	$ 565,605	$ 523,495
Net Assets:		
Invested in capital assets	$ 141,354	$ 268,455
Unrestricted	2,702,700	2,361,459
Total Net Assets	$2,844,054	$2,629,914
Revenue:		
State revenues	$ 708,559	$ 772,853
Charges for services	1,011,076	1,020,379
Other	103,963	91,066
Total Revenue	$1,823,598	$1,884,298
Expenses - Cooperative services	$ 651,269	$ 854,477
- Automation system operations	958,189	974,735
Total Expenses	$1,609,458	$1,829,212
Change in Net Assets	$ 214,140	$ 55,086

(Continued)

The Cooperative as a Whole

- The Cooperative's net assets increased by $214,140 this year. This reflects that current users, and other supporters of the Cooperative have paid the full cost of operating the Cooperative, even after depreciation.
- The Cooperative's primary sources of revenue are from state revenues, which represents 39% of total revenue and charges for services to its members, which represents 55% of total revenue.
- Total expenses were 88% of total revenue for the year ended September 30, 2006. Salaries and fringe benefits amount to approximately 29% of total expenditures.

The Cooperative's Funds

The Cooperative uses funds to help it control and manage money for particular purposes. Looking at funds helps you consider whether the Cooperative is being accountable for the resources provided and insight into the Cooperative's financial health.

The Cooperative's major funds are as follows:

General Fund - The General Fund is used to account for the general operations of the Cooperative. This fund records revenues and expenditures using the modified accrual basis of accounting. The fund balance of the General Fund increased during the year by $112,970. The total General Fund fund balance at September 30, 2006 was $884,343.

Proprietary Fund - The Proprietary Fund is used to record the revenues, expenses and resulting income for the shared automation system. The fund reported an increase in net assets of $103,938. Net assets of the Proprietary Fund at September 30, 2006 were $1,954,824.

In addition, the Cooperative maintains a Fiduciary Fund to account for the activities of Macomb Literacy Partners, Inc., a non-profit corporation.

Cooperative Budgetary Highlights

Over the course of the year, the Cooperative Board amended the budget to take into account events that occurred during the year. There were no significant amendments made to the budget during the year.

The Cooperative has been very vigilant in looking for ways to lower costs while still providing the same services. The following are areas where the actual expenditures were significantly less than anticipated.

General Fund: The Library Exchange (MiLE) has not been operational since October 2005. The expenses for this resource sharing software were budgeted for in the hopes that the software would be usable at some point during the year. The Suburban Library Cooperative has decided to withdraw from MiLE and will be looking into joining MeLCat which is a statewide resource sharing system that is currently paid for with Library Services and Technology Act funds that are given to the Library of Michigan.

Proprietary Fund: New contracts were signed for Internet access for a few member libraries at a lower cost. This reduced our Internet expenses.

Depreciation expenses were lower due to lack of replacements, and we are in the process of a Strategic Planning for Technology process that will determine where we put our technology investment, and determine if we are going to invest in a new automation system. This automation system is reviewed every five years, and we have been using the current system for five years. This process will be completed in February 2007.

(Continued)

Cooperative Budgetary Highlights (Continued)

With regard to revenues for this fiscal year, interest rates improved significantly for the certificates of deposit and money market accounts. The Cooperative also moved some revenue into a higher rate savings account. This increased our expected interest income. The Cooperative Board has formed an investment committee and is looking at maximizing the return on these funds.

The Library Network (TLN), another library cooperative in the State of Michigan, contracted with the Suburban Library Cooperative for services beginning in July 2006. The Suburban Library Cooperative Director is serving as the Interim Director at TLN while both organizations review possible partnership or merger opportunities. The miscellaneous income line item was exceeded due to this additional income for services.

Capital Assets

At the end of the fiscal year, the Cooperative had $141,353 invested in net capital assets, including site improvements, office furniture and equipment, computer equipment and software. The Cooperative added $35,104 of capital assets consisting of computer equipment and software.

Economic Factors and Considerations for Next Year

There are many changes coming to the Suburban Library Cooperative over the next year. The organization is moving into its own building beginning January 2007, and with the move will no longer be contracting with the Macomb County Library for cataloging, interlibrary loan and delivery services. The Suburban Library Cooperative will be hiring its own cataloging and interlibrary loan staff, and will be contracting with another vendor for delivery services.

The State of Michigan has reduced the per capita state aid amount for the Cooperative for FY 2006-07. The Cooperative Board has budgeted accordingly.

The Macomb County Library and Roseville Public Library both reduced staff users on the shared automation system for the 2006-07 FY. The Cooperative Board does not plan on any other reductions for the coming year in the Proprietary Fund and has budgeted accordingly.

The Strategic Planning for Technology plan will be presented in February 2007 and will guide the Suburban Library Cooperative and its members as to what the future technology investments will be to move the organization forward.

Contacting the Cooperative's Management

This financial report is intended to provide our citizens, members, customers and investors with a general overview of the Cooperative's finances and to show the Cooperative's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Cooperative Director at 16480 Hall Road, Clinton Township, Michigan 48038.

Exhibit 1

BUSS & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

SUBURBAN LIBRARY COOPERATIVE
County of Macomb, Michigan
STATEMENT OF NET ASSETS
September 30, 2006

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	
	GENERAL FUND	ENTERPRISE FUND	TOTAL
ASSETS			
Cash and cash equivalents	$ 844,577	$1,145,826	$1,990,403
Certificates of deposit	404,074	401,968	806,042
Investments	139,353	278,706	418,059
Prepaid expenses	-	6,061	6,061
Due from other governmental units	47,741	-	47,741
Capital assets, net	4,887	136,466	141,353
Total Assets	$1,440,632	$1,969,027	$3,409,659
LIABILITIES			
Accounts payable	$ 8,908	$ 1,754	$ 10,662
Due to member libraries	532,644	-	532,644
Deferred revenue	5,844	-	5,844
Accrued salaries	4,006	12,449	16,455
Total Liabilities	$ 551,402	$ 14,203	$ 565,605
NET ASSETS			
Invested in capital assets	$ 4,887	$ 136,466	$ 141,353
Unrestricted	884,343	1,818,358	2,702,701
Total Net Assets	$ 889,230	$1,954,824	$2,844,054

See accompanying notes to financial statements.

BUSS & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

Exhibit 2

SUBURBAN LIBRARY COOPERATIVE
County of Macomb, Michigan
STATEMENT OF ACTIVITIES
For The Year Ended September 30, 2006

FUNCTIONS/PROGRAMS:	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	GOVERNMENTAL ACTIVITIES: NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS	BUSINESS-TYPE ACTIVITIES: NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS	TOTAL
Primary Government:					
Governmental Activities:					
Cooperative services/operations	$ 651,269	$ -	($651,269)	$ -	($ 651,269)
Business-Type Activities:					
Automation system/operations	958,189	1,011,076	-	52,887	52,887
Total	$1,609,458	$1,011,076	($651,269)	$ 52,887	($ 598,382)
GENERAL REVENUES:					
State revenues			$708,559	$ -	$ 708,559
Interest on investments			38,732	50,987	89,719
Other miscellaneous			14,180	64	14,244
Total General Revenues and Special Item			$761,471	$ 51,051	$ 812,522
CHANGE IN NET ASSETS			$110,202	$ 103,938	$ 214,140
NET ASSETS:					
Beginning of year			779,028	1,850,886	2,629,914
End of year			$889,230	$1,954,824	$2,844,054

See accompanying notes to financial statements.

BUSS & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

SUBURBAN LIBRARY COOPERATIVE
County of Macomb, Michigan
GOVERNMENTAL FUND BALANCE SHEET - GENERAL FUND
September 30, 2006

ASSETS	
Cash and cash equivalents	$ 844,577
Certificates of deposit	404,074
Investments	139,353
Due from other governmental units	47,741
Total Assets	$1,435,745
LIABILITIES	
Accounts payable	$ 8,308
Due to member libraries	532,644
Deferred revenue	5,844
Accrued salaries	4,006
Due to other funds	600
Total Liabilities	$ 551,402
FUND BALANCE	
Unrestricted	884,343
Total Liabilities and Fund Balance	$1,435,745

See accompanying notes to financial statements.

BUSS & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

Exhibit 4

SUBURBAN LIBRARY COOPERATIVE
County of Macomb, Michigan
RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO THE STATEMENT OF NET ASSETS
September 30, 2006

TOTAL FUND BALANCE - GOVERNMENTAL FUNO		$884,343
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in the governmental activities are not financial resources and are not reported in the governmental funds:		
Capital assets	$ 48,289	
Accumulated depreciation	(43,402)	
		4,887
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		$889,230

See accompanying notes to financial statements.

BUSS & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

Exhibit 5

SUBURBAN LIBRARY COOPERATIVE
County of Macomb, Michigan
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND - GENERAL FUND
For The Year Ended September 30, 2006

REVENUES:	
State aid - Direct	$386,906
- Indirect	321,653
Interest	38,732
Miscellaneous	14,180
Total Revenues	$761,471
EXPENDITURES:	
Personnel:	
Salaries and employee benefits	$181,208
Travel, conferences and training	7,928
Administrative services:	
Professional services	12,738
Operating costs	40,078
Cooperative services:	
Centralized purchasing	275,000
Continuing education	7,798
Delivery	55,866
Interlibrary loan	55,152
Special projects	12,733
Total Expenditures	$648,501
EXCESS OF REVENUES OVER EXPENDITURES	$112,970
FUND BALANCE - OCTOBER 1, 2005	771,373
FUND BALANCE - SEPTEMBER 30, 2006	$884,343

See accompanying notes to financial statements

BUSS & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

Exhibit 6

SUBURBAN LIBRARY COOPERATIVE
County of Macomb, Michigan
RECONCILIATION OF GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
September 30, 2006

EXCESS OF REVENUES OVER EXPENDITURES - GOVERNMENTAL FUND	$112,970
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are capitalized and depreciated over their useful lives as depreciation	
Depreciation expense	(2,768)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$110,202

See accompanying notes to financial statements.

Buss & Company, P.C.
Certified Public Accountants
Clinton Township, Michigan

Exhibit 7

SUBURBAN LIBRARY COOPERATIVE
County of Macomb, Michigan
PROPRIETARY FUND BALANCE SHEET
September 30, 2006

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$1,145,826
Certificates of deposit	401,968
Investments	278,706
Due from other funds	6,061
Total Current Assets	$1,832,561
NONCURRENT ASSETS:	
Capital assets, net of depreciation	136,466
Total Assets	$1,969,027
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable	$ 1,754
Accrued salaries	12,449
Total Liabilities	$ 14,203
NET ASSETS	
Invested in capital assets	$ 136,466
Unrestricted	1,818,358
Total Net Assets	$1,954,824
Total Liabilities and Net Assets	$1,969,027

See accompanying notes to financial statements.

BUSS & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

Exhibit 8

SUBURBAN LIBRARY COOPERATIVE
County of Macomb, Michigan
PROPRIETARY FUND STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
For The Year Ended September 30, 2006

REVENUES:	
Member terminal rental	$ 984,400
Equipment maintenance	25,176
Workshops	1,500
Total Operating Revenues	$1,011,076
EXPENSES:	
Administration:	
Salaries and employee benefits	$ 287,579
Travel, conferences and training	11,758
Automation System:	
Depreciation	159,437
Maintenance	156,549
Telecommunications	33,331
Internet	92,435
Cataloging	200,623
Operating costs	16,477
Total Operating Expenses	$ 958,189
OPERATING INCOME	$ 52,887
NON-OPERATING REVENUES:	
Interest	$ 50,987
Miscellaneous	64
Total Non-Operating Revenues	$ 51,051
CHANGE IN NET ASSETS	$ 103,938
NET ASSETS - OCTOBER 1, 2005	1,850,886
NET ASSETS - SEPTEMBER 30, 2006	$1,954,824

See accompanying notes to financial statements.

BUSS & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

Exhibit 9

SUBURBAN LIBRARY COOPERATIVE
County of Macomb, Michigan
PROPRIETARY FUND STATEMENT OF CASH FLOWS
For The Year Ended September 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from members	$1,010,754
Cash paid to suppliers for goods and services	(590,652)
Cash paid to employees	(212,207)
Net Cash Flows - Operating Activities	$ 207,895
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchases of capital assets	($ 35,104)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	$ 50,987
Change in value of investments	1,426
Net Cash Flows - Investing Activities	$ 52,413
NET INCREASE IN CASH	$ 225,204
CASH AND CASH EQUIVALENTS - OCTOBER 1, 2005	1,322,590
CASH AND CASH EQUIVALENTS - SEPTEMBER 30, 2006	$1,547,794
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	$ 52,887
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	159,437
Miscellaneous income	64
(Increase) decrease in:	
Due from governmental units	(386)
Prepaid expenses	5,075
Increase (decrease) in:	
Accounts payable	(1,062)
Accrued salaries	2,030
Net Cash Flows - Operating Activities	$ 207,895

See accompanying notes to financial statements.

BUSS & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

Exhibit 10

SUBURBAN LIBRARY COOPERATIVE
County of Macomb, Michigan
FIDUCIARY FUND STATEMENT OF FIDUCIARY NET ASSETS
September 30, 2006

ASSETS	
Cash and cash equivalents	$ 84,284
Investments	2,185
Accounts receivable	2,000
Capital assets (Net of depreciation)	22,553
Total Assets	$111,022
LIABILITIES	
Accounts payable	$ 9,079
Accrued salaries	2,025
Total Liabilities	$ 11,104
NET ASSETS	
Unrestricted	99,918
Total Liabilities and Net Assets	$111,022

See accompanying notes to financial statements.

BUSS & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

Exhibit 11

SUBURBAN LIBRARY COOPERATIVE
County of Macomb, Michigan
FIDUCIARY FUND STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For The Year Ended September 30, 2006

REVENUES:	
Community contributions:	
Unrestricted	$125,647
Restricted	13,925
Read to Me Program revenues	26,538
Grants	40,795
Unrealized gain on investments	482
Total Revenues	$207,387
EXPENSES:	
Personnel:	
Salaries	$102,686
Benefits	33,695
Insurance	1,566
Contracted services	28,984
Administration:	
Operating expenses	15,342
Training expenses	939
Postage	1,578
Repairs and maintenance	395
Memberships	690
Depreciation	4,796
Loss on disposal of equipment	699
Total Expenses	$191,370
CHANGE IN NET ASSETS	$ 16,017
NET ASSETS - OCTOBER 1, 2005	83,901
NET ASSETS - SEPTEMBER 30, 2006	$ 99,918

See accompanying notes to financial statements.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Suburban Library Cooperative (the "Cooperative") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

A. GOVERNMENTAL REPORTING ENTITY

The Suburban Library Cooperative operates under the authority of P.A. 89 of 1977. The Cooperative provides services to its member libraries. The Cooperative is governed by an appointed nine member board representative of the participating libraries. The Cooperative has no component units as defined by the Governmental Accounting Standards Board.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary 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.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Cooperative's net assets are reported in two parts - invested in capital assets and unrestricted net assets.

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

Fund 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. Expenditures generally are recognized under the modified accrual basis of accounting when the related fund liability is incurred.

Interest associated with the current fiscal period is considered to be susceptible to accrual and has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Cooperative.

(Continued)

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)

Fund Financial Statements (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Cooperative's proprietary fund is charges to member libraries for the shared automation system. Operating expenses for the proprietary funds include administrative expenses and the cost of operating the automation system including depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Proprietary Fund is accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Fees collected for maintenance are recognized when billed.

The Cooperative reports the General Fund as a major governmental fund and its Enterprise Fund as a major proprietary fund.

The General Fund is the Cooperative's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

The Proprietary Fund is an enterprise fund used to record the revenues and expenses and resulting change in net assets of the Cooperative's shared automation system for member libraries.

Additionally, the Cooperative includes a Fiduciary Fund which is used to account for the revenues and expenses of Macomb Literacy Partners, Inc., a non-profit corporation.

C. ASSETS, LIABILITIES AND FUND EQUITY

Cash and Cash Equivalents, Certificates of Deposit and Investments

The Cooperative is authorized to invest surplus funds in U.S. bonds and notes, certificates of deposit repurchase agreements, and certain investment pools that are composed of authorized investments. During the year ended September 30, 2006, the Cooperative invested in U.S. bonds, certificates of deposit, and investment pools.

For purposes of the statement of cash flows, the Cooperative considers all short-term investments with an original maturity of six months or less to be cash equivalents.

(Continued)

C. **ASSETS, LIABILITIES AND FUND EQUITY (Continued)**

Capital Assets

Capital assets are defined by the Cooperative as assets with an initial cost of more than $1,000 and an estimated useful life in excess of two years. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Furniture and equipment	5-10 years
Site improvements	5 years
Computer equipment and software	3-5 years

Compensated Absences

It is the Cooperative's policy to permit employees to accumulate earned but unused vacation pay. There is no liability for unpaid accumulated sick leave since the Cooperative does not pay any amounts when employees separate from service. A liability for vacation pay benefits and related payroll taxes has been recorded in all funds at September 30, 2006.

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. Designation of fund balance represents tentative management plans that are subject to change.

D. **USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. **BUDGETS**

Annual operating budgets consistent with generally accepted accounting principles are formally adopted for the General Fund and the Proprietary Fund. The budgets can be amended by approval of the majority of the Board of Trustees. Amendments are presented to the Board at their regular meetings. All annual appropriations lapse at fiscal year end.

During the year ended September 30, 2006, the Cooperative did not exceed appropriated amounts in any expenditure classification.

(Continued)

III. DETAILED NOTES

A. DEPOSITS AND INVESTMENTS

Deposits are carried at cost plus accrued interest which approximates fair value.

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

	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	FIDUCIARY FUNDS	TOTAL PRIMARY GOVERNMENT
Cash and cash equivalents	$ 844,577	$1,145,826	$ 84,284	$2,074,687
Investments	404,074	401,968	2,185	808,227
Total	$1,248,651	$1,547,794	$ 86,469	$2,882,914

As of September 30, 2006, the Cooperative had the following investments:

	MATURITY	S & P RATING	CARRYING AMOUNT	FAIR VALUE
Federal Home Loan Bank Bonds	11/15/2028	AAA	$418,059	$418,059
Cisco Systems	-	N/R	2,185	2,185
			$420,244	$420,244

Credit Risk - The Cooperative's investments are limited by state statues. The Cooperative has no investment policy that would further limit its investment choices.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Cooperative's deposits may not be returned to it. The Cooperative does not have a deposit policy for custodial credit risk. As of September 30, 2006, $1,699,063 of the Cooperative's bank balance of $2,899,063 was exposed to custodial risk as follows:

DEPOSITS	INSURED (FDIC)	UNINSURED AND UNCOLLATERALIZED	CARRYING AMOUNT	BANK BALANCE
Demand Deposits	$ 100,000	$1,195,313	$1,270,937	$1,295,313
Money Market Funds	200,000	100,000	300,000	300,000
Certificates of Deposit	800,000	-	806,042	800,000
Savings Accounts	100,000	403,750	503,750	503,750
	$1,200,000	$1,699,063	$2,880,729	$2,899,063

(Continued)

B. CAPITAL ASSETS

Capital asset activity of the Cooperative was as follows:

	BALANCE OCTOBER 1, 2005	ADDITIONS	DISPOSALS AND ADJUSTMENTS	BALANCE SEPTEMBER 30, 2006
GOVERNMENTAL ACTIVITIES:				
Capital assets being depreciated:				
Office furniture and equipment	$ 48,289	$ -	$ -	$ 48,289
Accumulated depreciation	(40,634)	(2,768)	-	(43,402)
Total Governmental Activities Capital Assets, Net	$ 7,655	($ 2,768)	$ -	$ 4,887
BUSINESS-TYPE ACTIVITIES:				
Capital assets being depreciated:				
Computer equipment and software	$1,013,595	$ 35,104	($ 2,056)	$1,046,643
Site improvements	122,333	-	-	122,333
Total	$1,135,928	$ 35,104	($ 2,056)	$1,168,976
Accumulated depreciation:				
Computer equipment and software	($ 761,815)	($155,637)	$ 2,056	($ 915,396)
Site improvements	(113,313)	(3,801)	-	(117,114)
Total	($ 875,128)	($159,438)	$ 2,056	($1,032,510)
Total Business-Type Activities Capital Assets, Net	$ 260,800	($124,334)	$ -	$ 136,466

IV. PENSION PLAN

The Cooperative has established a Simplified Employee Pension Plan. The contribution is a percent of salaries as determined by the governing body of the Cooperative. The contribution for the year ended September 30, 2006 was approximately $52,500 on covered payroll of approximately $350,100. Total payroll for the year ended September 30, 2006 was approximately $411,000. The plan covers all employees of the Cooperative who are age 21 and over and have been employed for six months.

(Continued)

V. DEFERRED COMPENSATION PLAN

The Cooperative contributes to a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is administered by ICMA Retirement Corporation under an administrative service agreement. The plan is available to all employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or financial hardship.

ICMA Retirement Corporation is responsible for plan administration. The Cooperative does not have any fiduciary or administrative responsibility for the plan. Therefore, the plan assets are not reported in the Cooperative's financial statement.

VI. RISK MANAGEMENT

The Cooperative is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, unemployment benefits, as well as medical and workers' compensation benefits provided to employees. The Cooperative has purchased commercial insurance for workers' compensation, general liability, health, and life claims.

Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years.

VII. LEASES

In September 2006, the Cooperative entered into an agreement to lease building space. The term of the lease is for ten years from January 1, 2007 to December 31, 2016. There is an option to terminate in the event the State of Michigan ceases to appropriate funds to library cooperatives. Future minimum lease payments under the lease are as follows:

For The Year Ending September 30	
2007	$ 26,411
2008	38,990
2009	44,915
2010	51,204
2011	53,364
2012 and thereafter	315,312
	$530,196

REQUIRED SUPPLEMENTAL INFORMATION

BUSS & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

Schedule No. 1

SUBURBAN LIBRARY COOPERATIVE
County of Macomb, Michigan
BUDGETARY COMPARISON SCHEDULE
GOVERNMENTAL FUND - GENERAL FUND
For The Year Ended September 30, 2006

	BUDGETED AMOUNTS ORIGINAL	BUDGETED AMOUNTS FINAL	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
REVENUES:				
State aid - Direct	$386,518	$386,905	$386,906	$ 1
- Indirect	319,723	319,723	321,653	1,930
Interest	15,000	25,000	38,732	13,732
Miscellaneous	-	2,670	14,180	11,510
Total Revenues	$721,241	$734,298	$761,471	$ 27,173
EXPENDITURES:				
Personnel:				
Salaries and employee benefits	$189,000	$189,000	$181,208	$ 7,792
Travel, conferences and training	10,000	13,000	7,928	5,072
Administrative services:				
Professional services	15,000	15,000	12,738	2,262
Operating costs	51,241	51,241	40,078	11,163
Cooperative services:				
Centralized purchasing	275,000	275,000	275,000	-
Continuing education	10,000	14,000	7,798	6,202
Delivery	57,000	57,000	55,866	1,134
Interlibrary loan	100,000	100,000	55,152	44,848
Special projects	14,000	14,000	12,733	1,267
Total Expenditures	$721,241	$728,241	$648,501	$ 79,740
EXCESS OF REVENUES OVER EXPENDITURES	$ -	$ 6,057	$112,970	$106,913

See accompanying notes to financial statements.

BUSS & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

OTHER SUPPLEMENTAL INFORMATION

BUSS & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

Schedule No. 2

SUBURBAN LIBRARY COOPERATIVE
County of Macomb, Michigan
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - BUDGET AND ACTUAL
PROPRIETARY FUND
For The Year Ended September 30, 2006

	BUDGET	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
REVENUES:			
Member terminal rental	$ 984,400	$ 984,400	$ -
Equipment maintenance	25,176	25,176	-
Workshops	1,500	1,500	-
Total Operating Revenues	$1,011,076	$1,011,076	$ -
EXPENSES:			
Administration:			
Salaries and employee benefits	$ 290,000	$ 287,579	$ 2,421
Travel, conferences and training	15,000	11,758	3,242
Automation System:			
Depreciation	200,000	159,437	40,563
Maintenance	160,000	156,549	3,451
Telecommunications	40,000	33,331	6,669
Internet	105,000	92,435	12,565
Cataloging	215,000	200,623	14,377
Continuing education	3,000	-	3,000
Operating costs	30,140	16,477	13,663
Professional services	3,000	-	3,000
Total Operating Expenses	$1,061,140	$ 958,189	$102,951
OPERATING INCOME (LOSS)	($ 50,064)	$ 52,887	$102,951
NONOPERATING REVENUES:			
Interest	$ 35,000	$ 50,987	$ 15,987
Miscellaneous	64	64	-
Total Nonoperating Revenues	$ 35,064	$ 51,051	$ 15,987
CHANGE IN NET ASSETS	($ 15,000)	$ 103,938	$118,938

See accompanying notes to financial statements.

BUSS & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

Schedule No. 3

SUBURBAN LIBRARY COOPERATIVE
County of Macomb, Michigan
STATEMENT OF CHANGES IN FIDUCIARY FUND NET ASSETS - BUDGET AND ACTUAL
FIDUCIARY FUND
For The Year Ended September 30, 2006

	BUDGET	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
REVENUES:			
Community contributions:			
Unrestricted	$130,000	$125,647	($ 4,353)
Restricted	13,925	13,925	-
Read to Me Program revenues	26,538	26,538	-
Grants	40,796	40,795	(1)
Other revenues	-	482	482
Total Revenues	$211,259	$207,387	($ 3,872)
EXPENSES:			
Personnel:			
Salaries	$104,000	$102,686	$ 1,314
Benefits	34,743	33,695	1,048
Insurance	1,566	1,566	-
Contracted services	35,000	28,984	6,016
Administration:			
Operating expenses	15,200	15,342	(142)
Postage	1,500	1,578	(78)
Repairs and maintenance	500	395	105
Memberships	750	690	60
Loss on disposal of assets	-	699	(699)
Training expenses	1,000	939	61
Equipment	17,000	-	17,000
Depreciation	-	4,796	(4,796)
Total Expenses	$211,259	$191,370	$ 19,889
CHANGE IN NET ASSETS	$ -	$ 16,017	$ 16,017

See accompanying notes to financial statements.

BUSS & COMPANY, P.C.

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MEMBERS
The American Institute of Certified Public Accountants

The Michigan Association of Certified Public Accountants

November 8, 2006

Board of Trustees
Suburban Library Cooperative
16480 Hall Road
Clinton Township, Michigan 48038

In planning and performing the audit of the financial statements of the Suburban Library Cooperative for the year ended September 30, 2006, we considered its internal control structure, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. The following items are presented that could affect the Suburban Library Cooperative's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Internal control comments are made encompassing the concept that the cost of any internal control system should not be greater than the benefits obtained. The accomplishment of recommendations that are of a legal compliance versus internal control nature are not covered by the same cost concept, but are governed solely by legal requirements.

COMMENTS

The Cooperative's budgets were reviewed for compliance with the Uniform Accounting and Budgeting Act. The Act requires that expenditures in a specific appropriations account, in excess of the original budget, be approved by the Board with a transfer or supplemental appropriation. During the year ended September 30, 2006, the Cooperative did not exceed appropriated amounts in any expenditure classification.

As indicated in Schedule No. 1, on page 23, actual revenues for the General Fund were greater than budgeted revenues by $27,173. Actual expenditures were less than budgeted expenditures by $79,740. Combined, these differences resulted in a favorable variance of $106,913 and indicates that management is operating within the approved budget.

COMMENTS
(Continued)

Schedule No. 2, on page 24, indicates actual revenues for the Proprietary Fund were greater than budgeted revenues by $15,987. Actual expenses were less than budgeted expenses by $102,951. The Proprietary Fund experienced an increase in net assets of $118,938. This difference represents a favorable variance and indicates that the fees being charged to the member libraries adequately covered the funds expenses.

During the course of our audit we identified instances where supporting documentation for certain cash disbursements was not complete. Invoices are matched to approved purchase orders and reconciled with invoices to member libraries receiving the merchandise, however, payment is made to the vendor prior to establishing if the merchandise had been received. In order to reduce the risk of errors, we recommend that the member libraries provide evidence of receipt to the Cooperative prior to payment being made to the vendor.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts, that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, none of the conditions described above is believed to be a material weakness.

This report is intended solely for the information and use of the Board of Trustees, management, and others within the administration of the Suburban Library Cooperative. This restriction is not intended to limit distribution of this report which, upon acceptance by the Suburban Library Cooperative, is a matter of public record.

Respectfully submitted,

BUSS & COMPANY, P.C.

Buss & Company, PC

Certified Public Accountants

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