

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE

FLINT, MICHIGAN

AUDIT REPORT FOR THE YEAR ENDED SEPTEMBER 30, 2010

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December 23, 2010

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Mideastern Michigan Library Cooperative

We have audited the accompanying financial statements of the governmental activities and each major fund of Mideastern Michigan Library Cooperative, as of and for the year ended September 30, 2010. These financial statements are the responsibility of the Mideastern Michigan Library Cooperative's management. Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 and each major fund of Mideastern Michigan Library Cooperative as of September 30, 2010, and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2010 on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages II - VIII is not a required part of the basic financial statements, but is 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 opinions on the financial statements that collectively comprise Mideastern Michigan Library Cooperative's basic financial statements. The additional information on pages 12 - 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional 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.

A handwritten signature in black ink that reads "Lewis & Knopf, P.C." in a cursive script.

LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

As management of the Mideastern Michigan Library Cooperative, we offer readers of the Mideastern Michigan Library Cooperative's financial statements this narrative overview and analysis of the financial activities of the Mideastern Michigan Library Cooperative for the fiscal year ended September 30, 2010.

FINANCIAL HIGHLIGHTS

- * The Cooperative reports net assets of \$257,875 this year on a full accrual basis, as compared to fund balances of \$262,993 on the modified accrual basis.
- * The Cooperative's primary source of revenue is from state aid. For 2010, total state aid was \$250,863. This represents approximately 63 percent of total revenue, which is a decrease of 37% over prior year.
- * Delivery and transportation is the largest overall expenditure of the Cooperative. For 2010, this expenditure was \$183,270, representing 35 percent of the Cooperative's total expenditures, which is a decrease of 3% from prior year.
- * Salaries and fringe benefits are the second largest overall expenditure of the Cooperative. For 2010, this expenditure was \$175,989, representing 33 percent of the Cooperative's total expenditures, which is a decrease of 22% from prior year.
- * Summer reading program is the third largest overall expenditure of the Cooperative. For 2010, this expenditure was \$105,272, representing 20 percent of the Cooperative's total expenditures, which is a decrease of 4% from prior year.
- * Total expenditures for the entire year under the modified accrual method of accounting were \$529,526 which represents a decrease of \$155,899 from prior year primarily due to decreases in salaries and benefits, telecommunications and technology upgrade programming.
- * The Cooperative's conversion to meet GASB 34 standards, which includes capitalization of Cooperative owned assets and associated depreciation expense, as well as the increase in compensated absences expense, is reflected in the Statement of Activities on page 2 of this financial report.

USING THIS ANNUAL REPORT

This annual report consists of three parts: *Management's Discussion and Analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Cooperative.

- * The first column of the financial statements includes information on the Cooperative's General Fund under the modified accrual method. 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 adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full accrual method of accounting.
- * The third column presents the Cooperative's operations on a full accrual basis, which provides both long, 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 on a longer-term view of the Cooperative's finances.

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

USING THIS ANNUAL REPORT (Continued)

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 supplementary information* that further explains and supports the information in the financial statements.

Government-Wide Statements

The government-wide statements report information about the Cooperative as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Cooperative's net assets and how they have changed. Net assets—the difference between the Cooperative's assets and liabilities—is one way to measure the Cooperative's financial health, or position.

- * Over time, increases or decreases in the Cooperative's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- * To assess the overall health of the Cooperative you need to consider additional nonfinancial factors such as changes in the Cooperative's state revenue base and the number of libraries in the cooperative

Fund Financial Statements

The fund financial statements provide more detailed information about the Cooperative's most significant funds, not the Cooperative as a whole. Funds are accounting devices that the Cooperative uses to keep track of specific sources of funding and spending for particular purposes.

The Cooperative has two kinds of funds:

- * Governmental funds - All of the Cooperative's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Cooperative's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- * Fiduciary funds - The Cooperative is the trustee, or fiduciary, for its member libraries. The Cooperative is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Cooperative's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the Cooperative's government-wide financial statements because the Cooperative cannot use these assets to finance its operations.

As noted earlier, net assets may serve over time as a useful indicator of the government's financial position. In the case of the Cooperative, assets exceed liabilities by \$262,993 at the close of the most recent fiscal year.

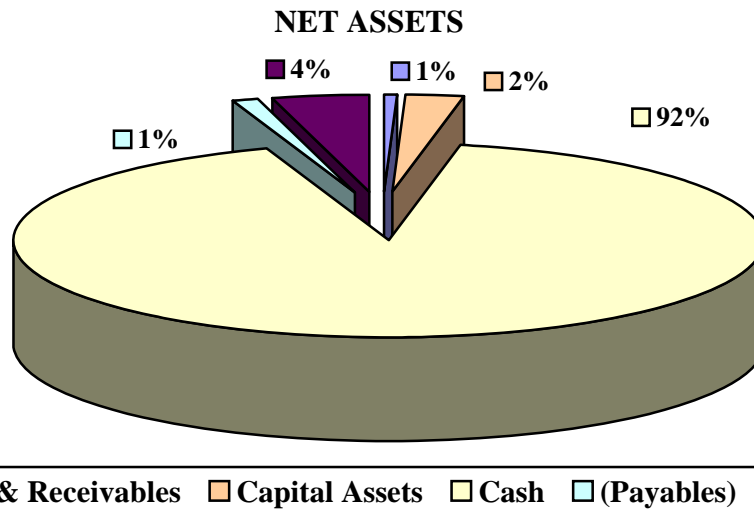
Of the Cooperative's net assets 3% reflects its investment in capital assets (e.g., furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The Cooperative uses these capital assets to provide services to members; consequently, these assets are *not* available for future spending. Although the Cooperative's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

CONDENSED FINANCIAL INFORMATION

The following table below shows key financial information in a condensed format:

	<u>2010</u>	<u>2009</u>
ASSETS		
Current Assets	\$265,592	\$394,204
Non-Current Assets	<u>7,179</u>	<u>11,345</u>
TOTAL ASSETS	<u><u>\$272,771</u></u>	<u><u>\$405,549</u></u>
LIABILITIES		
Current Liabilities	\$2,599	\$2,588
Non-Current Liabilities	<u>12,297</u>	<u>7,457</u>
Total Liabilities	<u>\$14,896</u>	<u>\$10,045</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	7,179	11,345
Unrestricted	<u>250,696</u>	<u>384,159</u>
<u>TOTAL NET ASSETS</u>	<u><u>\$257,875</u></u>	<u><u>\$395,504</u></u>



During fiscal year ended September 30, 2010 the Cooperative's net assets decreased by \$137,629 Cooperative is able to report positive balances in all categories of net assets for its governmental activities.

Net Assets - Invested in Capital Assets – Net of Debt

A portion of the change related to the Cooperative's Invested in Capital Assets – Net of Debt. Net Assets Invested in Capital Assets – Net of Debt decreased by \$4,166 during the year due to depreciation exceeding purchases of new capital assets.

Net Assets - Unrestricted

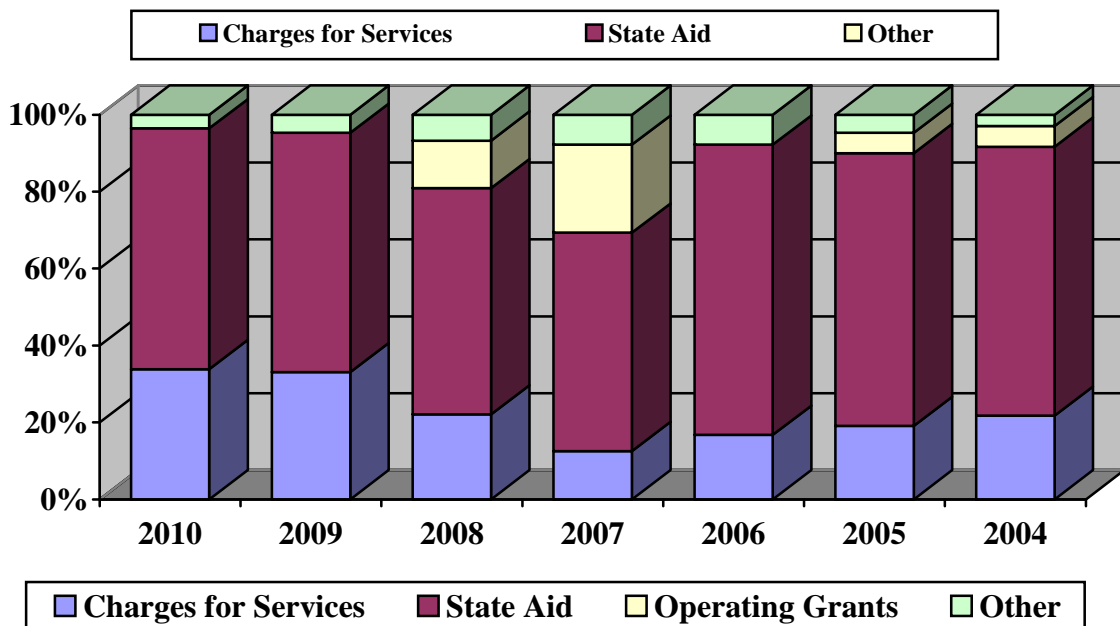
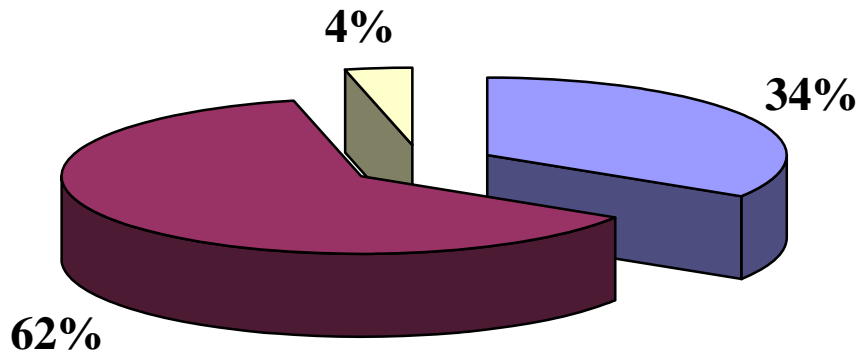
The Cooperative's Unrestricted Net Assets decreased \$133,463 during the year. These funds are used to meet government's ongoing obligations to citizens and creditors. The majority of this decrease represents the decreases in salaries and benefits, telecommunications and technology upgrade programming.

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

CONDENSED FINANCIAL INFORMATION (Continued)

	<u>2010</u>	<u>2009</u>
REVENUE		
Charges for Services	\$135,760	\$212,788
State Aid	250,863	400,225
Other Revenue	<u>14,280</u>	<u>30,369</u>
Total Revenue	<u>\$400,903</u>	<u>\$643,382</u>
EXPENDITURES		
Operating	240,244	262,643
Programs and Projects	<u>298,288</u>	<u>396,772</u>
Total Expenditures	<u>\$538,532</u>	<u>\$659,415</u>
<u>REVENUE (UNDER) EXPENDITURES</u>	<u><u>(\$137,629)</u></u>	<u><u>(\$16,033)</u></u>

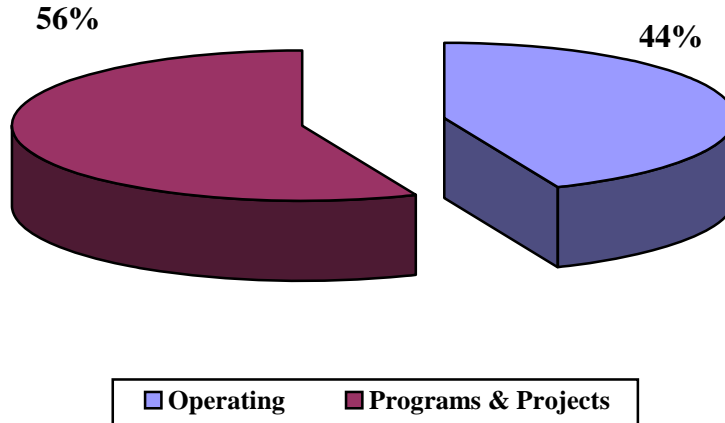
2010 REVENUE



MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

CONDENSED FINANCIAL INFORMATION (Continued)

2010 EXPENDITURES



THE COOPERATIVE'S GENERAL FUND

Our analysis of the Cooperative's General Fund is included on pages 1 and 2 in the first column of the respective statements. The fund column provides detailed information about the General Fund on a modified accrual basis of accounting, which is a short-term perspective measuring the flow of financial resources, - not the Cooperative's operations on a full accrual basis of accounting, which provides a longer term measurement of total economic resources. The Cooperative's only fund is the General Fund.

* The fund balance of the General Fund decreased by \$128,623 for the year. This represents expenditures greater than revenues.

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

GENERAL FUND BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Original & Final Budget %</u>	<u>Variance Actual & Final Budget %</u>
Revenues	\$446,843	\$459,174	\$400,903	2.76	12.69
Expenditures	486,243	529,122	529,526	8.82	0.08
<u>TOTAL</u>	<u>(\$39,400)</u>	<u>(\$69,948)</u>	<u>(\$128,623)</u>		

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.

Original Budgets vs. Final Budgets

Revenue

The most significant variances between revenue on the original and final budgets were due to increases in programming revenues.

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Original Budgets vs. Final Budgets (Continued)

Expenditures

The most significant variances between expenditures on the original and final budgets were due to an increase in professional fees, continuing education, children's programs and contingencies.

Actual Results vs. Final Budgets

Revenue

The most significant variances between revenue budgeted and actual were due to receiving less than expected state aid.

Expenditures

There were no significant variances between final budget and actual.

CAPITAL ASSETS AND DEBT ADMINISTRATION

As a result of GASB 34 implementation, the Cooperative adopted a capitalization policy of \$1,000. In order to fully implement the new policy we restated the capital assets for this new capitalization policy.

Capital asset activity for the fiscal year ended September 30, 2010, was as follows:

	<u>Balance Beginning</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Ending</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Equipment and Furniture	\$49,317	\$0	\$0	\$49,317
Less: Accumulated Depreciation	<u>(37,972)</u>	<u>(4,166)</u>	<u>0</u>	<u>(42,138)</u>
 <u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$11,345</u>	<u>(\$4,166)</u>	<u>\$0</u>	<u>\$7,179</u>

DEBT

A summary of the debt outstanding at the Cooperative is as follows:

	<u>Balance Beginning</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Ending</u>
Governmental Activities:				
Compensated Absences	<u>\$7,457</u>	<u>\$4,840</u>	<u>\$0</u>	<u>\$12,297</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Cooperative's 2010/2011 adopted budget is as follows:

REVENUE	
State Sources	\$243,880
Local Sources	<u>120,008</u>
Total Revenue Collected	\$363,888
 <u>EXPENDITURES</u>	 <u>322,641</u>
 <u>NET OVER BUDGET</u>	 <u>\$41,247</u>

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

CONTACTING THE COOPERATIVE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our members and taxpayers with a general overview of the Cooperative's finances. If you have questions about this report or need additional information, contact the Director at Mideastern Michigan Library Cooperative.

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
GOVERNMENTAL FUND BALANCE SHEET/ STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2010

	<u>General Fund - Modified Accrual Basis</u>	<u>Adjustments (Note 11)</u>	<u>Statement of Net Assets - Full Accrual Basis</u>
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash and Cash Equivalents	\$264,108	\$0	\$264,108
Due from Other Funds	1,089	0	1,089
Prepaid Assets	395	0	395
Total Current Assets	<u>\$265,592</u>	<u>\$0</u>	<u>\$265,592</u>
<u>NON-CURRENT ASSETS</u>			
Capital Assets	0	49,317	49,317
Less: Accumulated Depreciation	0	(42,138)	(42,138)
Total Non-Current Assets	<u>\$0</u>	<u>\$7,179</u>	<u>\$7,179</u>
<u>TOTAL ASSETS</u>	<u>\$265,592</u>	<u>\$7,179</u>	<u>\$272,771</u>
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Accrued Payroll	\$2,599	\$0	\$2,599
<u>NON-CURRENT LIABILITIES</u>			
Compensated Absences	0	12,297	12,297
Total Liabilities	<u>\$2,599</u>	<u>\$12,297</u>	<u>\$14,896</u>
<u>FUND BALANCE/NET ASSETS</u>			
<u>FUND BALANCE</u>			
Unreserved - Undesignated	<u>262,993</u>		
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	<u>\$265,592</u>		
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt		7,179	7,179
Unrestricted		(12,297)	250,696
Total Net Assets		<u>(\$5,118)</u>	<u>\$257,875</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>		<u>\$7,179</u>	<u>\$272,771</u>

See accompanying notes to the basic financial statements

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
STATEMENT OF GOVERNMENTAL REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE/ STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	General Fund - Modified <u>Accrual Basis</u>	Adjustments (Note 11)	Statement of Activities - Full <u>Accrual Basis</u>
<u>REVENUE</u>			
Charges for Services	\$135,760	\$0	\$135,760
State Aid	250,863	0	250,863
Interest Income	11,839	0	11,839
Miscellaneous	2,441	0	2,441
Total Revenue	<u>\$400,903</u>	<u>\$0</u>	<u>\$400,903</u>
<u>EXPENDITURES</u>			
Operating	231,238	9,006	240,244
Programs and Projects	298,288	0	298,288
Total Expenditures	<u>\$529,526</u>	<u>\$9,006</u>	<u>\$538,532</u>
<u>REVENUE OVER (UNDER) EXPENDITURES</u>	(\$128,623)	(\$9,006)	(\$137,629)
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>391,616</u>	<u>3,888</u>	<u>395,504</u>
<u>FUND BALANCE - END OF YEAR (DEFICIT)</u>	<u>\$262,993</u>	<u>(\$5,118)</u>	<u>\$257,875</u>

See accompanying notes to the basic financial statements

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
AS OF SEPTEMBER 30, 2010

	<u>Trust & Agency</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	<u>\$972,687</u>
<u>TOTAL ASSETS</u>	<u><u>\$972,687</u></u>
<u>LIABILITIES</u>	
Due to Other Fund	\$1,089
Due to Other Libraries	<u>971,598</u>
<u>TOTAL LIABILITIES</u>	<u><u>\$972,687</u></u>

See accompanying notes to the basic financial statements.

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUE</u>				
Charges for Services	\$89,210	\$109,402	\$135,760	\$26,358
State Aid	337,633	337,633	250,863	(86,770)
Interest Income	20,000	12,000	11,839	(161)
Miscellaneous	0	139	2,441	2,302
Total Revenue	<u>\$446,843</u>	<u>\$459,174</u>	<u>\$400,903</u>	<u>(\$58,271)</u>
<u>EXPENDITURES</u>	<u>486,243</u>	<u>529,122</u>	<u>529,526</u>	<u>(404)</u>
<u>REVENUES OVER (UNDER) EXPENDITURES</u>	<u>(\$39,400)</u>	<u>(\$69,948)</u>	<u>(\$128,623)</u>	<u>(\$58,675)</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>			<u>391,616</u>	
<u>FUND BALANCE - END OF YEAR</u>			<u>\$262,993</u>	

See accompanying notes to the basic financial statements.

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Mideastern Michigan Library Cooperative was established under Michigan Public Act 286, 1965, known as the State Aid to Public Libraries Act of 1965 as amended by Public Act 89, 1977. The service area of the Cooperative is all of Genesee, Bay, Ingham, Lapeer, and portions of Midland, Saginaw, Shiawassee and Oakland Counties. The Cooperative itself does not provide direct service to the public; rather, it aids and assists member libraries in their endeavors to better serve the public. Funds for the Cooperative's operation come from local, state, and federal sources.

The general purpose financial statements of the Mideastern Michigan Library Cooperative have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Cooperative's accounting policies are described below:

REPORTING ENTITY

The Mideastern Michigan Library Cooperative is the basic level of government which has financial accountability and control over all activities related to the Cooperative within the geographical area known as Mideastern Michigan. The Cooperative receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. However, the Cooperative is not included in any other governmental "reporting entity" as defined by GASB pronouncement. In addition, there are no component units as defined in Governmental Accounting Standards Board Statement 14 which are included in the Cooperative's reporting entity.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The Cooperative has one fund, the General Fund, which is the Cooperative's primary operating fund.

The General Fund is budgeted and accounted for 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 Cooperative 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. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due. Normally, expenditures are divided between years by the recording of prepaid expenses. The prepaid expenses reported on the balance sheet represent payments made in advance for expenditures.

In addition to presenting information for the General Fund, the statements combine all fund activity and present information for the Cooperative as a whole, using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of 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.

FIDUCIARY FUND TYPE

Trust and Agency Fund

This fund is used to account for assets held by the Cooperative in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL STATEMENT AMOUNTS

CASH AND CASH EQUIVALENTS

The Cooperative considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Investments are reported at fair market value and determined using selected bases. Short-term investments are reported at cost, which approximate fair values. Securities traded on a national exchange are valued at the last reported sales price and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

INVESTMENTS

In accordance with Public Act 20 of the Public Acts of 1943, as amended, the surplus funds of the Mideastern Michigan Library Cooperative (MMLC) may be invested as follows:

- a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of this state of the United States.
- c) Commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d) Repurchase agreements consisting of instruments listed in subdivision (a) above. Repurchase agreements shall be negotiated only with dealers or financial institutions with whom the Mideastern Michigan Library Cooperative (MMLC) has negotiated a Master Repurchase Agreement. Repurchase Agreements must be signed with the bank or dealer and must contain provisions comparable to those outlined in the Public Security Association's model Master Repurchase Agreement.
- e) Bankers' acceptances of United States banks.
- f) Mutual funds registered under the investment company act of 1940, maintain a \$1 per share net asset value, and with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g) Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.

PREPAID EXPENSES

Prepaid balances are for payments made by the Cooperative in the current year to provide services occurring in the subsequent fiscal year.

CAPITAL ASSETS

Generally, capital assets are defined by the Cooperative with an initial cost of more than \$1,000. Such assets are recorded at cost or, if donated, at their estimated fair value on the date donated.

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other cost incurred for repairs and maintenance are expensed as incurred.

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL STATEMENT AMOUNTS (Continued)

CAPITAL ASSETS (Continued)

Depreciation on such capital assets is charged as an expense against the operations on a straight-line basis over the following estimated useful lives:

<u>Description</u>	<u>Governmental Activities</u> <u>Estimated Lives</u>
Equipment and Furniture	<u>5 - 7 Years</u>

REVENUE RECOGNITION

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restriction.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Cooperative reports any donor-restricted contributions whose restrictions are not in the same accounting period as unrestricted support.

COMPENSATED ABSENCES

The Cooperative reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick and vacation leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick and vacation leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the Cooperative's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

DEFERRED REVENUE

Income is recognized as revenue as it is earned. Prepayments are recorded as deferred until the revenue is earned over the year.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the period. Actual results could differ from those estimates.

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

2) DEPOSITS

As of September 30, 2010, the Cooperative had no investments.

Interest rate risk. The risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Cooperative's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The risk of loss attributed to the magnitude of the Cooperative's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Concentration of credit risk. The risk of loss attributed to the magnitude of the Cooperative's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The Cooperative did not have any investments as of September 30, 2010.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Cooperative's deposits may not be returned to it. As of September 30, 2010, \$247,361 of the Cooperative's bank balance of \$1,258,307 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Cooperative's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Cooperative will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Cooperative will do business.

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

The above amounts as previously reported in Note 4:

Deposits – Including Fiduciary Funds of \$972,687	\$ 1,236,795
Investments	<u>0</u>
<u>TOTAL</u>	<u>\$ 1,236,795</u>

The above amounts are reported in the financial statements as follows:

Cash – Fiduciary Fund	\$ 972,687
Cash – Government Wide	264,108
Investments – Government Wide	<u>0</u>
<u>TOTAL</u>	<u>\$ 1,236,795</u>

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

3) CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2010, was as follows:

	Balance Beginning	Additions	Deductions	Balance Ending
<u>GOVERNMENTAL ACTIVITIES</u>				
Equipment and Furniture	\$49,317	\$0	\$0	\$49,317
Less: Accumulated Depreciation	(37,972)	(4,166)	0	(42,138)
<u>GOVERNMENTAL ACTIVITIES</u>				
CAPITAL ASSETS - NET	\$11,345	(\$4,166)	\$0	\$7,179

Depreciation expense was \$4,166 for the year ended September 30, 2010.

4) LONG-TERM DEBT

A summary of the debt outstanding at the Cooperative is as follows:

	Balance Beginning	Additions	Deductions	Balance Ending
<u>Governmental Activities:</u>				
Compensated Absences	\$7,457	\$4,840	\$0	\$12,297

The compensated absences represent the estimated liability to be paid to employees under various sick and vacation pay contracts. Under the Cooperative's various contracts, employees earn vacation and sick time based on time of service with the Cooperative.

5) RENT EXPENSE

The Cooperative is currently renting office space in the Charles Stewart Mott Foundation Building located in Flint, Michigan at a monthly rate of \$789 plus real estate taxes and operating expenses charged once annually. Rent paid for fiscal year ending September 30, 2010 totaled \$9,468. The 3-year lease agreement commenced on April 1, 2008 and expires on March 31, 2011. The following is a schedule of future minimum rental payments required under this lease:

September 30, 2011	\$ 4,734
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6) BUDGETARY DATA

The Cooperative follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) Prior to the beginning of the ensuing fiscal year, the Cooperative Board passes a general appropriations act reflecting formal budget approval in accordance with the Michigan Uniform Budget Act.
- 2) Budgeted amounts in this report are as originally adopted or as amended by the Cooperative Board. Amendments to the original appropriations were made due to changes anticipated in the areas of membership and state aid.

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

7) RISK MANAGEMENT

The Cooperative is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and workman's compensation claims. The Cooperative limits its exposure to such claims through its participation in and payment of premiums for insurance coverage. The Cooperative's management believes that this provides sufficient coverage to protect the Cooperative from any significant adverse financial impact.

8) PENSION PLAN

The Cooperative offers a portable employee owned Simplified Employee Pension Plan (SEPP) under internal revenue code section 408(k) covering substantially all full-time employees. Michael Deeb of Deeb & Associates manages the Kemper Investment plan. The employer contribution is determined and reviewed annually by the Board. The current year covered payroll was \$134,755 and the Cooperative's total payroll amounted to \$134,755 . The contribution is computed at 15 percent, effective October 1, 2005, of full-time employee's wages and amounted to \$19,015 for the year ended September 30, 2010.

9) CONTINGENCIES AND COMMITMENTS

The Cooperative participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The amounts, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time although the Cooperative expects such amounts, if any, to be immaterial.

10) SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 23, 2010, the date on which the financial statements were available to be issued.

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

11) RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Cooperative's General Fund differs from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified Accrual Basis	\$262,993
Amounts Reported in the Statement of Net Assets Are Different Because:	
Capital Assets are Not Financial Resources, and are Not Reported in the Funds	7,179
Long-Term Liabilities	<u>(12,297)</u>
<u>NET ASSETS OF GENERAL FUND - FULL ACCRUAL BASIS</u>	<u>\$257,875</u>
Net Changes in Fund Balances - Modified Accrual Basis	(\$128,623)
Amounts Reported in the Statement of Activities Are Different Because:	
Capital Outlays are Reported as Expenditures in the Statement of Revenue, Expenditures, and Changes in Fund Balance; in the Statement of Activities, These Costs are Allocated Over Their Estimated Useful Lives as Depreciation:	
(Increase) in Long-Term Liabilities	(4,840)
Purchase of Capital Assets	0
Depreciation	<u>(4,166)</u>
<u>CHANGES IN NET ASSETS OF GENERAL FUND - FULL ACCRUAL BASIS</u>	<u>(\$137,629)</u>

INDIVIDUAL FUND SCHEDULES

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
GENERAL FUND
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

EXPENSESOperating

Administrative Salaries and Benefits	\$175,989
Auditing	4,500
Board	1,538
Contingency	6,710
Continuing Education Services	9,999
Institutional Dues	665
Insurance	4,497
Office Supplies and Materials	3,498
Professional Services	6,002
Rent	10,990
Repairs and Maintenance	3,061
Utilities	3,789
Total Operating	<u>\$231,238</u>

Programs and Projects

Delivery and Transportation	183,270
Programming	9,746
Summer Reading Program	105,272
Total Programs and Projects	<u>\$298,288</u>

TOTAL EXPENSES

\$529,526

MIDEASTERN MICHIGAN LIBRARY COOPERATIVE
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	BALANCE OCTOBER 1, 2009	RECEIPTS	DISBURSEMENTS	BALANCE SEPTEMBER 30, 2010
Almont - Restricted	\$0	\$2,390	\$2,390	\$0
Bay County - Restricted	6,712	22,035	17,951	10,796
CADL - Restricted	75,433	23,584	75,432	23,585
Chippewa River - Restricted	0	9,983	10,033	(50)
Coleman - Restricted	1,489	466	1,489	466
Coleman - Revolving	0	1,489	0	1,489
Community District - Restricted	5,486	2,522	5,690	2,318
Community District - Revolving	9,928	0	8,550	1,378
Dryden - Restricted	1,272	2,059	3,017	314
Dryden - Revolving	4,931	1,272	1,350	4,853
FPL - Restricted	34,968	12,269	35,358	11,879
FPL - Revolving Account	184,317	34,968	0	219,285
GDL - Restricted	98,058	32,345	107,709	22,694
GDL - Revolving	322,601	98,057	63,215	357,443
Grace A. Dow - Restricted	13,566	14,914	13,566	14,914
Grace A. Dow - Revolving	28,808	13,566	17,291	25,083
Holly Twp - Restricted	2,039	2,599	4,505	133
Holly Twp - Revolving	12,445	2,039	3,521	10,963
Laingsburg - Restricted	823	889	1,298	414
Laingsburg - Revolving	3,415	824	2,980	1,259
Lapeer District - Restricted	17,856	9,851	26,849	858
Lapeer District - Revolving	75,374	17,856	7,156	86,074
North Branch - Restricted	583	353	1,385	(449)
North Branch - Revolving	614	0	614	0
Pere Marquette - Restricted	471	839	1,136	174
Pere Marquette - Revolving	0	471	0	471
Ruth Hughes - Restricted	2,181	1,106	3,162	125
Ruth Hughes - Revolving	6,369	2,181	4,168	4,382
Saginaw - Restricted	41,382	12,946	43,172	11,156
Saginaw - Revolving	92,850	41,382	16,439	117,793
SDL Owosso - Restricted	5,550	3,003	7,936	617
SDL Owosso - Revolving	40,000	5,550	4,500	41,050
Vernon - Restricted	746	489	1,104	131
Vernon - Revolving	121	0	121	0
<u>TOTALS</u>	<u>\$1,090,388</u>	<u>\$374,297</u>	<u>\$493,087</u>	<u>\$971,598</u>



December 23, 2010

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of
Mideastern Michigan Library Cooperative

We have audited the financial statements of the governmental activities and each major fund of the Mideastern Michigan Library Cooperative as of and for the year ended September 30, 2010, which collectively comprise the Mideastern Michigan Library Cooperative's basic financial statements and have issued our report thereon dated December 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Mideastern Michigan Library Cooperative's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Mideastern Michigan Library Cooperative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mideastern Michigan Library Cooperative'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. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

1. Accounting Expertise

Effective for the year ended 1, 2006, Statement on Auditing Standards #112 titled, *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the financial statements and the footnotes required in the annual audit. Based upon discussions with management and audit work performed in the current year, the Cooperative has the capability to perform monthly internal accounting functions and provide timely reports as requested by the board. The Cooperative does not have the personnel with qualifications and training necessary to generate financial statements, including the required eliminating entries and footnotes, in accordance with accounting principles generally accepted in the United States of America. We would expect this comment to continue from year to year. We do not recommend any changes to this situation at this time and communicate this as required by professional standards.

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.

Compliance and Other Matters

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

This report is intended for the information of the management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS



Lewis
& Knopf
CPAs, PC