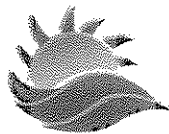


**NORTHLAND LIBRARY COOPERATIVE**  
**ALPENA COUNTY, MICHIGAN**

**Financial Statements**  
**For the Year Ended September 30, 2017**



**Schulze, Oswald, Miller & Edwards PC**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**989-354-8707**

**NORTHLAND LIBRARY COOPERATIVE**  
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**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

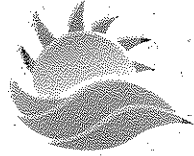
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# *Schulze Oswald Miller & Edwards PC*

120 N. Ripley Street • Alpena, MI 49707  
P.O. Box 69 • Rose City, MI 48654

Alpena 989-354-8707 • Fax 989-354-8708  
Rose City 989-685-2411 • Fax 989-685-2412



## **INDEPENDENT AUDITORS' REPORT**

To the Board Members of  
Northland Library Cooperative  
Alpena, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the **Northland Library Cooperative, Alpena County, Michigan** (the "Cooperative"), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **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 the major fund of the Northland Library Cooperative as of September 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 - 6 and 19 be presented to supplement

the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Schulze, Oswald, Miller & Edwards PC*

Schulze, Oswald, Miller & Edwards PC  
Alpena, Michigan  
November 13, 2017

The following discussion and analysis of the financial performance for the Northland Library Cooperative (the "Cooperative") provides an overview of the Cooperative's financial activities for the fiscal year ended September 30, 2017. Please read it in conjunction with the Cooperative's financial statements.

**USING THIS ANNUAL FINANCIAL REPORT**

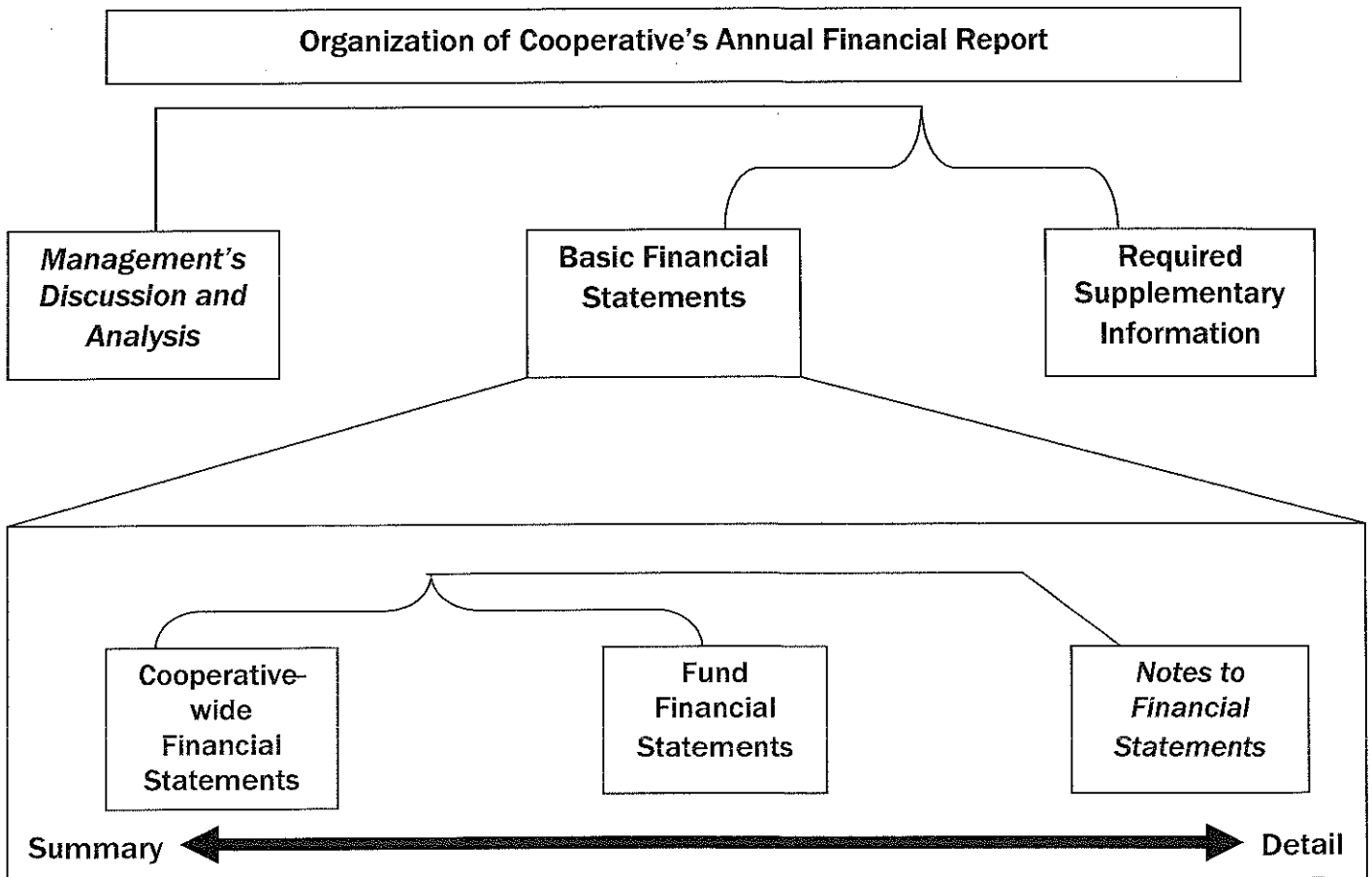
This annual report consists of three parts: (1) Management's Discussion and Analysis (MD&A), (2) the basic financial statements, which include two kinds of statements that present different views of the Cooperative, and (3) required supplementary information.

The first two statements are Cooperative-wide financial statements that provide both long and short-term information about the Cooperative's overall financial status.

The remaining statements are fund financial statements that focus on the individual parts of the Cooperative, reporting the Cooperative's operations in more detail. The governmental fund statements tell how basic services were financed. The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Cooperative's budget for the year.

The following chart illustrates how the various parts of this annual report are arranged and related to one another.



**Cooperative-wide financial statements.** The *Cooperative-wide financial statements* are designed to provide readers with a broad overview of the Cooperative's finances, in a manner similar to private-sector business.

The *statement of net position* presents information on all of the Cooperative's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Cooperative is improving or deteriorating.

The *statement of activities* presents information showing how the Cooperative's net position changed during the recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Cooperative, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Activities of the Cooperative are presented in one fund, the General Fund.

**Governmental funds.** Governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the Cooperative-wide financial statements, it is useful to compare the information presented for *governmental activities* in the Cooperative-wide financial statements. By doing so, readers may better understand the long-term impact of the Cooperative's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Cooperative maintains one governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. These statements can be found on pages 7 - 12 of this report.

The Cooperative adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund. This statement can be found on page 19 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the Cooperative-wide and fund financial statements. The notes to the financial statements can be found on pages 13 - 18 of this report.

**Required Supplementary Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Cooperative's budgets. Comparison statements are provided to show budget to actual information and related variances. The required supplementary information statement is on page 19 of this report.

**COOPERATIVE-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Cooperative, assets exceeded liabilities by \$187,254 at the close of the most recent fiscal year. The balance of *unrestricted net position* \$187,254 may be used to meet the Cooperative's ongoing obligations to citizens and creditors.

**Governmental Activities.** Governmental activities increased the Cooperative's net position by \$42,617. Key elements of this decrease are as follows:

- Program revenues increased by \$105,835, while expenses increased by only \$64,448.

**Summary of The Cooperative's Net Position**

	Governmental Activities	
	09/30/2017	09/30/2016
Current Assets	\$ 188,728	\$ 144,637
Noncurrent Assets	-	-
Total Assets	<u>188,728</u>	<u>144,637</u>
Current Liabilities	1,474	-
Long term Liabilities	-	-
Total Liabilities	<u>1,474</u>	<u>-</u>
Net position:		
Unrestricted	<u>187,254</u>	<u>144,637</u>
Total Net position	<u>\$ 187,254</u>	<u>\$ 144,637</u>

**Summary of The Cooperative's Changes in Net Position**

	Governmental Activities	
	09/30/2017	09/30/2016
Revenues:		
Program Revenues:		
Charges for Services	\$ -	\$ -
Operating Grants and Contributions	499	250
General Revenues:		
State Aid	212,306	118,486
Other:		
Interest and Other	12,018	252
Total Program Revenues	<u>224,823</u>	<u>118,988</u>
Expenses:		
Cooperative Services	138,972	82,531
Operating Expenses	43,234	35,227
Total Expenses	<u>182,206</u>	<u>117,758</u>
Change in Net position	<u>\$ 42,617</u>	<u>\$ 1,230</u>

**FINANCIAL ANALYSIS OF THE COOPERATIVE'S FUNDS**

As noted earlier, the Cooperative uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the Cooperative's *governmental fund* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Cooperative's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Cooperative's governmental fund reported an ending fund balance of \$187,254. Of the total balance, \$87,254 is *unrestricted fund balance*, which is available for spending at the government's discretion. \$100,000 is assigned by the board, which means it is tentatively set aside for a particular purpose. Further information on this assignment can be found in the notes to the financial statements.

The fund balance of the Cooperative's general fund increased by \$42,617 during the current fiscal year.

**BUDGETARY HIGHLIGHTS**

The Cooperative prepared an annual budget for the year. The budget was modified during the year. There were no variances between actual results and budgeted expectations.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The Cooperative had no capital assets as of September 30, 2017.

**Long-term Debt**

The Cooperative had no long-term debt as of September 30, 2017.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The Cooperative's financial forecast is static heading into the 2018 Cooperative year.

- It is expected that state aid dollars from the state will continue to be an unpredictable source of funds in the future considering current economic conditions with the State of Michigan.

**CONTACTING THE COOPERATIVE'S FINANCIAL MANAGEMENT**

This financial report is designed to provide its readers with a general overview of the Cooperative's finances and to demonstrate the Cooperative's accountability for the money it receives. If you have question about this report or need additional information, contact the Cooperative's office at:

Northland Library Cooperative, Executive Director ~ 111 E. Parson St, Alpena, MI 49707.



**NORTHLAND LIBRARY COOPERATIVE**  
Governmental Funds  
Statement of Net Position  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

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**ASSETS**

Cash and cash equivalents	\$	188,728
Accounts receivable		-
Capital assets, net of accumulated depreciation		-
Total assets	<u>\$</u>	<u>188,728</u>

**LIABILITIES**

Accounts Payable	\$	1,474
Total liabilities		<u>1,474</u>

**NET POSITION**

Invested in capital assets, net of related debt		-
Unrestricted		187,254
Total net position	<u>\$</u>	<u>187,254</u>

Notes to the financial statements are an integral part of this statement.

**NORTHLAND LIBRARY COOPERATIVE**  
**Governmental Funds**  
**Statement of Activities**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

<b>FUNCTIONS / PROGRAMS</b>	<b>Expenses</b>	<b>Program Revenues</b>		<b>Net (Expense ) Revenue &amp; Changes in Net Position</b>
		<b>Charges for Services</b>	<b>Operating Grants / Contributions</b>	<b>Governmental Activities</b>
<b>PRIMARY GOVERNMENT</b>				
<b><u>Governmental Activities</u></b>				
Cooperative Services	\$ 138,972	\$ -	\$ 499	\$ (138,473)
Operating Expenses	43,234	-	-	(43,234)
<b>Total Governmental Activities</b>	<b>\$ 182,206</b>	<b>\$ -</b>	<b>\$ 499</b>	<b>(181,707)</b>
<b><u>General Revenues</u></b>				
State Aid				212,306
Reimbursements				11,766
Interest				252
<b>Total General Revenues</b>				<b>224,324</b>
<b>Change in Net Position</b>				<b>42,617</b>
<b>Net Position, beginning of year</b>				<b>144,637</b>
<b>Net Position, end of year</b>				<b>\$ 187,254</b>

Notes to the financial statements are an integral part of this statement.

**NORTHLAND LIBRARY COOPERATIVE  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
AS OF SEPTEMBER 30, 2017**

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	<b>General Fund</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 188,728
Accounts receivable	-
	<hr/>
Total Assets	\$ 188,728
	<hr/> <hr/>
<b>LIABILITIES</b>	
Accounts Payable	\$ 1,474
	<hr/>
Total Liabilities	1,474
	<hr/>
<b>FUND BALANCES</b>	
Assigned	100,000
Unassigned	87,254
	<hr/>
Total Fund Balances	187,254
	<hr/>
Total Liabilities and Fund Balances	\$ 188,728
	<hr/> <hr/>

Notes to the financial statements are an integral part of this statement.

**NORTHLAND LIBRARY COOPERATIVE  
GOVERNMENTAL FUNDS  
RECONCILIATION OF BALANCE SHEET TO STATEMENT OF NET POSITION  
AS OF SEPTEMBER 30, 2017**

---

Total Governmental Funds Fund balance as reported in the balance sheet of the governmental funds	\$ 187,254
Amounts reported for governmental activities in the statement of net position are different because:	-
Total Net Position - Governmental Activities	<u>\$ 187,254</u>

Notes to the financial statements are an integral part of this statement.

**NORTHLAND LIBRARY COOPERATIVE  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

	<b>General Fund</b>
<b>REVENUES</b>	
Direct State Aid	\$ 126,445
Indirect State Aid	85,861
Reimbursements	11,766
Interest Income	252
Donation/Misc.	499
	224,823
<b>Total Revenues</b>	
<b>EXPENDITURES</b>	
<b>General government:</b>	
Cooperative Services	138,972
Operating Expenses	43,234
	182,206
<b>Total Expenditures</b>	
Excess (Deficiency) of Revenues over Expenditures	42,617
<b>Fund Balance, beginning of year</b>	144,637
<b>Fund Balance, end of year</b>	\$ 187,254

Notes to the financial statements are an integral part of this statement.

**NORTHLAND LIBRARY COOPERATIVE  
GOVERNMENTAL FUNDS  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

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Net change in Fund Balances - Governmental Funds	\$ 42,617
Amounts reported for governmental activities in the statement of net position are different because:	-
	<hr/>
Change in Net Position - Governmental Activities	<u>\$ 42,617</u>

Notes to the financial statements are an integral part of this statement.

**NORTHLAND LIBRARY COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2017

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**NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION**

**Definition of the Reporting Entity**

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

**Basis of Presentation**

The financial statements present the fund financial statement on a modified accrual basis with an adjustment to present the statement of net position and the statement of activities on a full accrual basis.

**Fund Financial Statements**

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the Cooperative, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds, which are maintained in accordance with the activities or objectives specified.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government.

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

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability

**NORTHLAND LIBRARY COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2017

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government 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.

State Aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The Cooperative reports the following major governmental fund:

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

**Cash and Cash Equivalents**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with maturity of three months or less when acquired.

**Receivables**

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

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Cooperative does not have any deferred outflows of resources.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Cooperative does not have any deferred inflows of resources.



**NORTHLAND LIBRARY COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2017

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Net Position Flow Assumption**

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

**Fund Balance Flow Assumption**

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**Fund Equity**

In the fund financial statements, governmental funds report the following classifications of fund balance:

*Nonspendable* - Includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact.

*Restricted* - Includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

*Committed* - Includes amounts that can only be used for specific purposes determined by a formal action by Board Resolution. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (Board Resolution) that was employed when the funds were initially committed.

*Assigned* - Includes amounts a government intends to use for a specific purpose. Intent can be expressed by the Board or by an official or body to which the board delegates the authority.

*Unassigned* - Includes amounts that are available for any purpose. Positive amounts are only reported in the General Fund.

Restricted resources are used first when an expense is incurred for which both restricted and unrestricted resources are available. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Cooperative considers amounts to have been spent first from committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions.

**NORTHLAND LIBRARY COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2017

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. The face amount of debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

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

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

1. The Cooperative's director submits to the Board of Trustees a proposed budget prior to October 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. Budgeted amounts are as originally adopted, or as amended by the Board of Trustees throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the functional level.

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

For the fiscal year ended September 30, 2017, there were no accounts in which expenditures were in excess of budgeted amounts.

**Accumulated Fund Deficits**

The Cooperative had no funds with an accumulated fund balance deficit at September 30, 2017.

**NOTE 4 - CASH AND CASH INVESTMENTS**

Deposits are in two financial institutions in the name of the Cooperative. The Cooperative's investment policy authorizes the Cooperative Treasurer to invest in the following types of securities:

- A. Bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States.

**NORTHLAND LIBRARY COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2017

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**NOTE 4 - CASH AND CASH INVESTMENTS (continued)**

- B. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but the Cooperative shall not deposit or invest funds in a financial institution that is not eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.
- C. Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686.65 State / 890.15 ISC 9a1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
  - i. The purchase of securities on a when-issued or delayed delivery basis.
  - ii. The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
  - iii. The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- D. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 2129.111 to 129.118; or
- E. The investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

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

**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.

At September 30, 2017, the carrying amount of the Cooperative's deposits were \$188,728. The respective bank balance totaled \$206,697, of which the full amount was covered by Federal Depository Insurance. The difference between the carrying amount of the Cooperative's deposits and the respective bank balance represents checks written during the year but not yet presented for payment.

All of the Cooperative's deposits were made in accordance with the investment policy.

**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 Cooperative will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities which are in accordance with State law.

**NORTHLAND LIBRARY COOPERATIVE**

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2017

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**NOTE 5 - RISK MANAGEMENT**

The Cooperative is exposed to various risks of loss related to property loss and torts, errors, omissions, and employee injuries. The Cooperative has purchased commercial insurance for property, personal liability, and umbrella coverage. Settled claims relating to the commercial insurance are not expected to exceed the amount of insurance coverage.

**NOTE 6 - COMPENSATED ABSENCES**

The Cooperative does not offer compensated absences, therefore there is no accrual presented in accordance with Governmental Accounting Standards Board's Statement No. 16 "Accounting for Compensated Absences".

**NOTE 7 - PENSION PLAN**

The Cooperative does not provide a pension plan.

**NOTE 8 - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through November 13, 2017, the date on which the financial statements were available to be issued.

**NORTHLAND LIBRARY COOPERATIVE  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE**

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

	<u>Final Budget</u>	<u>Actual Balances</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUE</b>			
Direct State Aid	\$ 126,232	\$ 126,445	\$ 213
Indirect State Aid	87,155	85,861	(1,294)
Reimbursements	12,992	11,766	(1,226)
Interest Income	500	252	(248)
Donation/Misc.	499	499	-
<b>Total Revenue</b>	<u>227,378</u>	<u>224,823</u>	<u>(2,555)</u>
<b>EXPENDITURES</b>			
Cooperative Services	162,822	138,972	23,850
Operating Expenses	64,556	43,234	21,322
<b>Total Expenditures</b>	<u>227,378</u>	<u>182,206</u>	<u>45,172</u>
<b>EXCESS OF REVENUE OVER EXPENDITURES</b>	-	42,617	42,617
<b>FUND BALANCE - Beginning of year</b>	<u>144,637</u>	<u>144,637</u>	-
<b>FUND BALANCE - End of year</b>	<u>\$ 144,637</u>	<u>\$ 187,254</u>	<u>\$ 42,617</u>

See notes to the financial statements.

# *Schulze Oswald Miller & Edwards PC*

120 N. Ripley Street • Alpena, MI 49707  
P.O. Box 69 • Rose City, MI 48654



Alpena 989-354-8707 • Fax 989-354-8708  
Rose City 989-685-2411 • Fax 989-685-2412

## REQUIRED COMMUNICATION TO THE NORTHLAND LIBRARY COOPERATIVE IN ACCORDANCE WITH PROFESSIONAL STANDARDS

Northland Library Cooperative Board Members  
Alpena County, Michigan

We have audited the financial statements of the governmental activities and the major fund of the Northland Library Cooperative for the year ended September 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 9, 2017. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Northland Library Cooperative are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by Northland Library Cooperative during the year for which there is a lack of authoritative guidance of consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset depreciation.

Management's estimate of the capital asset depreciation is based on the estimated useful lives of Northland Library Cooperative's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The disclosures in the financial statements are neutral, consistent, and clear.

### **Difficulties Encountered in Performing the Audit**

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

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other

than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

#### **Disagreements with Management**

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

#### **Management Representation**

We have requested certain representations from management that are included in the management representation letter dated November 13, 2017.

#### **Management's Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Cooperative's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all relevant facts. To our knowledge, there were no such consultations with other accountants.

#### **Other Audit Findings or Issues**

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

#### **Other Matters**

We applied certain limited procedures to the Management's Discussion and Analysis and Budgetary Comparison Schedule, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquires of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

#### **Restrictions on Use**

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

*Schulze, Oswald, Miller & Edwards PC*

Schulze, Oswald, Miller & Edwards PC  
Alpena, Michigan  
November 13, 2017



## COMMUNICATION OF MATERIAL WEAKNESSES

To the Board Members of Northland Library Cooperative  
Alpena, Michigan

In planning and performing our audit of the financial statements of the governmental activities and the major fund of the Northland Library Cooperative, Alpena County, Michigan (the Entity) as of and for the year ended September 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Entity's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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

### 1. Lack of Adequate Controls to Produce Full-Disclosure GAAP Basis Financial Statements

**Criteria:** All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Entity's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

**Condition:** As is the case with many smaller and medium-sized entities, the Entity has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Entity's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the Entity's internal controls.

**Cause:** This condition was caused by the Entity's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Entity to perform this task internally.



Effect: As a result of this condition, the Entity lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The Entity has evaluated the cost versus benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interest of the Entity to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

## 2. Segregation of duties

Criteria: All governments are required to have a strong system of internal controls to safeguard assets.

Condition: The ultimate accounting system would include enough employees to completely segregate all aspects of each transaction. Different departments or individuals would handle: transaction authorization, transaction execution, asset handling, recording of transactions, review of transactions, and subsequent control of assets.

Cause: The Entity cannot enact a complete separation of all aspects of each transaction due to the nature of local unit government. The "cost to benefit" relationship also would not justify a complete segregation of all duties.

Effect: As a result, the Entity must understand the limits of their internal control system.

Recommendation: We recommend that the Entity Board Members understand these circumstances when performing their oversight responsibilities.

View of Responsible Officials: Management recognizes that this limitation is a natural outgrowth of the small number of staff, and applies its judgment in determining how best to allocate the government's resources to provide an appropriate balance between sound internal controls and fiscal prudence.

The Entity's response to the material weaknesses identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

*Schulze, Oswald, Miller & Edwards PC*

Schulze, Oswald, Miller & Edwards PC  
Alpena, Michigan  
November 13, 2017