

NORTHERN MICHIGAN LIBRARY NETWORK
AUDITED FINANCIAL STATEMENTS
For the Year Ended September 30, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Northern Michigan Library Network
1615 Presque Isle Avenue
Marquette, Michigan 49855

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northern Michigan Library Network (the Network) as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Network'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.

Auditor's 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 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 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, each major fund, and the aggregate remaining fund information of the Network, as of September 30, 2019, 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 (as listed in the table of contents) 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2020 on our consideration of the Network'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 solely 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 effectiveness of the Network's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Network's internal control over financial reporting and compliance.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

January 31, 2020

Northern Michigan Library Network

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Northern Michigan Library Network's (the Network) financial performance provides an overview of the Network's financial activities for the year ended September 30, 2019. Please read it in conjunction with the financial statements as listed in the table of contents.

FINANCIAL HIGHLIGHTS

- Net position for the Network as a whole was reported at \$-0-. Net position is comprised of 100% governmental activities. This represents an increase of \$-0- from the prior year when net position was reported at \$-0-.
- During the year, the Network's total expenses were \$1,918, while revenues from all sources totaled \$1,918 resulting in net position remaining at \$-0-.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (as listed in the table of contents) provide information about the activities of the Network as a whole and present a longer-term view of the Network finances.

Reporting the Network as a Whole

One of the most important questions asked about the Network's finances is "Is the Network as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Network as a whole and about its activities in a way that helps answer this question. These statements include *all* assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Network's *net position* and changes in them. You can think of the Network's net position - the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources - as one way to measure the Network's financial health, or *financial position*. Over time, *increases or decreases* in the Network's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Network's operating base and the condition of the Network's capital assets, to assess the *overall financial health* of the Network.

In the Statement of Net Position and the Statement of Activities, we report all of the Network's activities as governmental activities. Federal and State grants along with contracted revenues finance most of these activities.

Reporting the Network's Most Significant Funds

The Network only reports one fund which is the General Fund. The fund financial statements are reported in combination with the government-wide financial statements. The General Fund, a governmental fund, is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of the Network's general government operations and the basic services it provides.

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Network’s program.

We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and Statement of Activities) and governmental funds in reconciliations which follows each of the Statement of Net Position and Statement of Activities.

Northern Michigan Library Network as a Whole

Table 1 provides a summary of the Network’s net position as of September 30, 2019 and 2018.

	Governmental Activities	
	2019	2018
Current and other assets	\$-	\$-
Capital assets, net	-	-
Total Assets	-	-
Deferred outflows of resources	-	-
Current liabilities	-	-
Long-term liabilities	-	-
Total Liabilities	-	-
Deferred inflows of resources	-	-
Net Position:		
Net investment in capital assets	-	-
Unrestricted	-	-
Total Net Position	\$-	\$-

Net position of the Network’s governmental activities stood at \$-0-. Unrestricted net position — the part of net position that could be used to finance day-to-day activities stood at \$-0-.

The \$-0- in unrestricted net position represents the accumulated results of all past years’ operations. The results of this year’s operations for the Network as a whole are reported in the Statement of Activities. (See Table 2), which shows the changes in net position for fiscal year 2019 and 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

**Table 2
Statement of Activities**

	Governmental Activities	
	2019	2018
Program revenues:		
Charges for services	\$1,918	\$1,878
Total Revenues	1,918	1,878
Program Expenses:		
Library services	1,918	1,878
Total Expenses	1,918	1,878
Change in net position	-	-
Net position, beginning	-	-
Net Position, Ending	\$-	\$-

The Network's total revenues were \$1,918. The total cost of all programs and services was \$1,918 resulting in a change in net position of \$-0- as a result of fiscal year 2019 operations.

NORTHERN MICHIGAN LIBRARY NETWORK'S FUNDS

As the Organization completed the year, its General Fund, the only governmental fund, reported a fund balance of \$-0- with an increase of \$-0- from the beginning of the year.

General Fund Budgetary Highlights

The Organization adopted a balanced budget for the fiscal year ended September 30, 2019.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2019, the Network had \$-0- invested in equipment. (See Table 3 below)

**Table 3
Capital Assets at Year-End**

	Governmental Activities	
	2019	2018
Fixed assets	\$1	\$1
Accumulated depreciation	(1)	(1)
Capital Assets (Net)	\$-	\$-

Depreciation expense was \$-0- for fiscal year 2019. Further details on capital assets can be found in the notes to the financial statements.

Debt

The Network has no outstanding debt at year-end.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In preparing the budget for next year, the Board anticipates conditions to remain the same for the FY 2019/2020 as they were for FY 2018/2019 with some minor changes.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

CONTACTING THE NETWORK FINANCIAL MANAGEMENT

This financial report is designated to provide our customers, investors and creditors with a general overview of the Network's finances and to show the Network's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Network Administrator at Northern Michigan Library Network, 1615 Presque Isle Avenue, Marquette, Michigan 49855.

Northern Michigan Library Network

STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET

September 30, 2019

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ -	\$ -	\$ -
Capital assets, net	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	-	-	-
	<hr/>	<hr/>	<hr/>
DEFERRED OUTFLOWS OF RESOURCES	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ -</u>		
	<hr/>		
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ -	-	-
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	-	-	-
	<hr/>	<hr/>	<hr/>
DEFERRED INFLOWS OF RESOURCES	-	-	-
	<hr/>	<hr/>	<hr/>
FUND BALANCE			
Unassigned	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL FUND BALANCE	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ -</u>		
	<hr/>		
NET POSITION			
Net investment in capital assets		-	-
Restricted		-	-
Unrestricted		-	-
		<hr/>	<hr/>
TOTAL NET POSITION		<u>\$ -</u>	<u>\$ -</u>
		<hr/>	<hr/>

The accompanying notes to financial statements are an integral part of this statement.

Northern Michigan Library Network

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

September 30, 2019

Total Fund Balances for Governmental Funds **\$ -**

*Amounts reported for governmental activities in the statement
of net position are different because:*

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

Cost of capital assets	\$ 1	
Accumulated depreciation	<u>(1)</u>	<u>-</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ -**

The accompanying notes to financial statements are an integral part of this statement.

Northern Michigan Library Network

STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE

For the year ended September 30, 2019

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES/EXPENSES:			
Professional and contractual	\$ 1,360	\$ -	\$ 1,360
Insurance	558	-	558
Miscellaneous	-	-	-
Depreciation	-	-	-
TOTAL EXPENDITURES/EXPENSES	<u>1,918</u>	<u>-</u>	<u>1,918</u>
GENERAL REVENUES:			
Lease Income	1	-	1
Transfer from UPRLC	1,417	-	1,417
Transfer from SLC	500	-	500
TOTAL GENERAL REVENUES	<u>1,918</u>	<u>-</u>	<u>1,918</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	
CHANGE IN NET POSITION		-	-
FUND BALANCE/NET POSITION:			
Beginning of the year	<u>-</u>		<u>-</u>
END OF THE YEAR	<u><u>\$ -</u></u>		<u><u>\$ -</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Northern Michigan Library Network

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**

For the year ended September 30, 2019

Net Change in Fund Balances - Total Governmental Funds \$ -

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Depreciation expense	\$ -	
Capital outlays	-	-
	<u> </u>	<u> </u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u> </u>

The accompanying notes to financial statements are an integral part of this statement.

NORTHERN MICHIGAN LIBRARY NETWORK

NOTES TO FINANCIAL STATEMENTS

September 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The operations of the Northern Michigan Library Network (the Network) are accounted for with a separate set of self-balancing accounts. The accounting policies of the Network conform to generally accepted accounting principles as applicable to governments and the following is a summary of the more significant policies:

BASIS OF PRESENTATION

The Network adopted Governmental Accounting Standards Board (GASB) Statement No. 34, which substantially revised the financial statement presentation as described below.

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the Network as a whole. They include all governmental activities which are generally financed through State sources, charges for services, and other revenues. Equity is classified as net position and displayed in three components – net investment in capital assets, restricted, and unrestricted.

Fund Financial Statements

The accounts of the Network are organized on the basis of funds. The operations of the Network's only fund, the General Fund, are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures. The General Fund is a governmental fund and it is used to account for all financial resources of the Network.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, the governmental activities are presented using the economic resource measurement focus as defined in item (b) below. In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. The General Fund governmental fund utilizes a "current financial resources" measurement focus. Only current financial assets, deferred outflows of resources, liabilities, and deferred inflows of resources are generally included on the balance sheet. The operating statement presents sources and uses of available spendable financial resources during a given period. This fund uses fund balance as its measure of available spendable resources at the end of the period.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- b. The government-wide statements utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position and cash flows. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, whether current or noncurrent, associated with their activities are reported. Government –wide fund equity is classified as net position.

BASIS OF ACCOUNTING

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures, including capital outlay, are generally recognized when the related fund liability is incurred.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Cash and Equivalents – The Network’s cash and cash equivalents as reported in the Statement of Net Position are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less. Investments are carried at fair value. The fair value measurements of investments is based on the hierarchy established by generally accepted accounting principles, which has three levels based on the valuation inputs used to measure an asset’s fair value.

Capital Assets – The accounting and reporting treatment applied to capital assets associated with a fund are determined by its measurement focus. In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

In the government-wide financial statements, all capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. The Network defines capital assets as assets with an initial, individual cost of more than \$1,000.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets’ estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	50 years
Equipment	3 – 20 years

The cost of normal maintenance and repairs is charged to operations as incurred. Renewals and betterments are capitalized and depreciated over the remaining useful lives of the related properties.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Deferred Outflows 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 future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government does not have any items that qualify for reporting in this category.

Deferred Inflows of Resources – In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This 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 government does not have any items that qualify for reporting in this category.

Revenues – In the government-wide Statement of Activities, revenues are segregated by activity and are classified as either program revenue or general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues, which do not meet the criteria of program revenues and include revenues such as lease and interest income.

In the governmental fund statements, revenues are reported by source, such as federal sources, state sources and charges for services. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the Network's policy to use the restricted resources first.

Expenses/Expenditures – In the government-wide Statement of Activities, expenses are segregated by activity and are classified by function. In the governmental fund statements, expenditures are classified by character such as current operations and capital outlay.

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

Subsequent Events – Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through January 31, 2020, which is the date the financial statements were available to be issued.

NOTE B – JOINTLY GOVERNED ORGANIZATION:

On March 21, 2008, Superiorland Library Cooperative joined with the Peter White Public Library Board, the Dickinson County Library, and the West Iron District Library to establish an agreement for the ownership and management of property in order to ensure the central location and continued operation of a shared automation system, technical support, and training services for member libraries. Through this agreement the member libraries established, under Public Act 7 of 1967, a separate legal entity named the Northern Michigan Library Network which shall not be operated for profit and no portion of Northern Michigan Library Network's earnings shall inure to the benefit of the member libraries.

NOTE B – JOINTLY GOVERNED ORGANIZATION (Continued):

Upon establishment, the Northern Michigan Library Network was governed by a board consisting of seven members of whom two board members are appointed by Superiorland Library Cooperative, two board members are appointed by the Peter White Public Library Board, two board members are appointed by the Dickinson County Library, and one board member is appointed by the West Iron District Library.

On January 8, 2010, the Northern Michigan Library Network Agreement between Superiorland Library Cooperative and Member Libraries was amended to add the Superior District Library as a fifth participating library and to add two more members to the Northern Michigan Library Network Board, for a total of nine voting members. In addition to the board members listed above, the board consists of two members appointed by the Superior District Library.

Upon establishment of the Northern Michigan Library Network on March 21, 2008, Superiorland Library Cooperative sold all of its capital assets consisting of land, building, and equipment with a net book value of \$97,924 to Northern Michigan Library Network for one dollar.

NOTE C – OPERATING LEASE RECEIVABLES:

Northern Michigan Library Network has a triple net lease with Superiorland Library Cooperative, a non-profit organization, for the lease of its building. Future minimum rental receipts for the lease as of September 30, 2019 are as follows:

Year	General Fund
2020	\$1
2021	1
2022	1
2023	1
2024-2028	5
Total Future Minimum Lease Payments	<u>\$9</u>

NOTE D – CAPITAL ASSETS:

Capital asset activity for the year ended September 30, 2019 is as follows:

	Balance 9/30/18	Additions	Disposals	Balance 9/30/19
Asset Cost:				
Land	\$-	\$-	\$-	\$-
Buildings and improvements	1	-	-	1
Furniture and fixtures	-	-	-	-
Total Asset Cost	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
Accumulated Depreciation:				
Buildings and improvements	(1)	-	-	(1)
Furniture and fixtures	-	-	-	-
Total Accumulated Depreciation	<u>(1)</u>	<u>-</u>	<u>-</u>	<u>(1)</u>
Net Capital Assets	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>

Depreciation expense charged to governmental activities was \$-0-.

NOTE E – FUND BALANCE – GOVERNMENTAL FUNDS:

Fund balances of the governmental funds are classified as follows:

Non-spendable — amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed — amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board of Directors is the highest level of decision-making authority for the Network. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board of Directors.

Assigned — amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the Network’s adopted policy, only the Board of Directors may assign amounts for specific purposes.

Unassigned — all other spendable amounts.

As of September 30, 2019 fund balances are composed of the following:

	<u>General Fund</u>
Unassigned	<u>\$-</u>
Total Fund Balances	<u><u>\$-</u></u>

The Board of Directors establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by the Board of Directors through adoption or amendment of the budget as intended for specific purpose.

When expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Network considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Network considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Directors has provided otherwise in its commitment or assignment actions.

NOTE F – NEW GASB STANDARDS:

Management of the *Network* has reviewed the following pronouncements released by the Governmental Accounting Standards Board (GASB) that are effective in the current fiscal year for applicability. Pronouncements deemed applicable to the *Network* by management are described below in *Recently Issued and Adopted Accounting Pronouncements*; pronouncements not applicable are described in *Other Recently Issued Accounting Pronouncements*.

Recently Issued and Adopted Accounting Pronouncements

None

NOTE F – NEW GASB STANDARDS (Continued):

Other Recently Issued Accounting Pronouncements

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. GASB 88 requires that additional essential information related to debt be disclosed in the notes to the financial statements, including unused lines of credit; assets pledged as collateral for the debt, and term specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. Debt, for purposes of disclosure in the notes to the financial statements, is defined under this Statement as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement also requires that existing and additional information be provided for direct borrowings and direct placement of debt separately from other debt. This statement is effective for periods beginning after June 15, 2018. The Network has no debt that meets the criteria for GASB 88; therefore, GASB 88 is not applicable to the Network.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. GASB 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. Under the Statement recognition occurs when the liability is both incurred and reasonably estimable. It requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. It requires similar disclosures for a government's minority shares of AROs. This statement is effective for periods beginning after June 15, 2018. The Network does not have any AROs that meet the criteria for GASB 83; therefore, GASB 83 is not applicable to the Network.

NOTE G – UPCOMING STANDARDS:

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the Network in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the Network.

GASB 84: Fiduciary Activities

Effective for fiscal years beginning after December 15, 2018 (Network's fiscal year 2020)

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The Statement identifies four types of fiduciary funds

NOTE G – UPCOMING STANDARDS (Continued):

that should be reported, as applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

GASB 87: Leases

Effective for fiscal years beginning after December 15, 2019 (Network's fiscal year 2021)

This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financing of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

GASB 89: Accounting for Interest Cost Incurred Before the End of a Construction Period

Effective for fiscal years beginning after December 15, 2019 (Network's fiscal year 2021)

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that was previously accounted for in accordance with the requirements of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statement prepared using the economic resources measurement focus.

GASB 90: Majority Equity Interest – An Amendment of GASB Statements No. 14 and No. 61

Effective for fiscal years beginning after December 15, 2018 (Network's fiscal year 2020)

This statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund

NOTE G – UPCOMING STANDARDS (Continued):

that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority interest in a legally separate organization results in a government being financially accountable for a legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit.

GASB 91: Conduit Debt Obligations

Effective for fiscal years beginning after December 15, 2020 (Network's fiscal year 2022)

The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for account and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

A conduit debt obligation is defined as a debt instrument having *all* of the following characteristics:

- There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide

NOTE G – UPCOMING STANDARDS (Continued):

with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.
- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.
- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

**REQUIRED SUPPLEMENTAL
INFORMATION**

Northern Michigan Library Network

GENERAL FUND

GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL

For the year ended September 30, 2019

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Lease income	\$ 1	\$ 1	\$ 1	\$ -
Transfer from UPRLC	2,439	2,439	1,417	(1,022)
Transfer from SLC	500	500	500	-
TOTAL REVENUES	<u>2,940</u>	<u>2,940</u>	<u>1,918</u>	<u>(1,022)</u>
EXPENDITURES:				
Professional and contractual	2,340	2,340	1,360	980
Insurance	600	600	558	42
Miscellaneous	-	-	-	-
Capital outlay	-	-	-	-
TOTAL EXPENDITURES	<u>2,940</u>	<u>2,940</u>	<u>1,918</u>	<u>1,022</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

COMPLIANCE SECTION



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

To the Board of Directors of the
Northern Michigan Library Network
1615 Presque Isle Avenue
Marquette, Michigan 49855

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northern Michigan Library Network (the Network), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Network's basic financial statements and have issued our report thereon dated January 31, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Network's internal control over financial reporting (internal control) to determine the 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 Network's internal control. Accordingly, we do not express an opinion on the effectiveness of the Network's internal control.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Report to Management that we consider to be significant deficiencies item 2019-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Network's financial statements are free from 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*.

The Network's Response to Findings

The Network's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The Network's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

January 31, 2020

COMMUNICATIONS SECTION



Northern Michigan Library Network
Report to Management
For the Year Ended September 30, 2019

To the Board of Directors and Management of the
Northern Michigan Library Network
1615 Presque Isle Avenue
Marquette, Michigan 49855

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northern Michigan Library Network (the Network) as of and for the year ended September 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Network'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 Network's internal control. Accordingly, we do not express an opinion on the effectiveness of the Network'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 significant deficiencies.

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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in internal control to be significant deficiencies:

SIGNIFICANT DEFICIENCIES

2019-001 SEGREGATION OF DUTIES (REPEAT)

Condition/Criteria: The size of the Network's accounting and administrative staff precludes certain internal design controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Cause of Condition: Smaller organizations, due to limited resources, are generally more sensitive to the cost of implementing these design controls and often have compensating controls to partially mitigate this deficiency.

Effect: The segregation of duties is less than optimal due to the size of the organization and could allow for a misstatement to be overlooked by management.

Recommendation: These control deficiencies can be overcome by reviewing major account reconciliations, involvement in certain cycles of operation, and financial oversight of the Organization's financial affairs by the Board of Directors.

Management Response-Corrective Plan:

- Contract Person(s) Responsible for Correction:
 - Board of Directors
- Corrective Action Planned:
 - See separate Corrective Action Plan
- Anticipated Completion Date:
 - Not applicable

The Network's written response to the significant deficiencies 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 of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

January 31, 2020



Northern Michigan Library Network
Communication with Those Charged with Governance
For the Year Ended September 30, 2019

January 31, 2020

To the Board of Directors of the
Northern Michigan Library Network
1615 Presque Isle Avenue
Marquette, Michigan 49855

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northern Michigan Library Network (the Network) for the year ended September 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), 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 December 9, 2019. 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. The significant accounting policies used by the Network are described in the notes to the financial statements. Newly adopted GASB standards are described in the notes to the financial statements. We noted no transactions entered into by the Network during the year for which there is a lack of authoritative guidance or 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 Network's financial statements was:

Management's estimate of the accumulated depreciation and depreciation expense is based on historical cost and estimated useful life. Depreciation is calculated using the straight-line method. We evaluated the key factors and assumptions used to develop the current year depreciation and accumulated depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures 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 Representations

We have requested certain representations from management that are included in the management representation letter dated January 31, 2020.

Management 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 Network'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 the 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 the Network's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Board of Directors of the
Northern Michigan Library Network

Our consideration of internal control was for the limited purpose described in a separate letter 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Report to Management that we consider to be significant deficiencies item 2019-001.

Other Matters

We applied certain limited procedures to the required supplementary information, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries 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.

Restriction on Use

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

Very truly yours,

Anderson, Tackman & Company, PLLC
Certified Public Accountants

Northern Michigan Library Network

1615 Presque Isle Avenue

Marquette, MI 49855

v: (906) 228-7697

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Corrective Action Plan
For the Year Ended September 30, 2019

January 31, 2020

In response to the findings disclosed in the audited financial statements for the year ended September 30, 2019:

2019-001 SEGREGATION OF DUTIES (REPEAT)

Corrective Action Plan:

The Network is aware of this deficiency and believes smaller organizations, due to limited resources, are generally more sensitive to the cost of implementing these design controls and often have compensating controls to partially mitigate this deficiency. The Network Board of Directors closely monitors all payments and reviews the financial statements on a monthly basis. We do not foresee the need for any changes to this procedure at this time.