

**SUPERIORLAND LIBRARY COOPERATIVE**

**FINANCIAL STATEMENTS**

**For the Year Ended September 30, 2018**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the  
Superiorland Library Cooperative  
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 Superiorland Library Cooperative (the Cooperative), as of and for the year ended September 30, 2018, 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.

### ***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 Cooperative, as of September 30, 2018, 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, 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 Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cooperative's basic financial statements. The Other Supplemental Information, as listed in the table contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Other Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplemental Information is fairly stated in all material respects in relation to the basic financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2019, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the

Board of Directors of the  
Superiorland Library Cooperative

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 Cooperative'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 Cooperative's internal control over financial reporting and compliance.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants

February 4, 2019

## Superiorland Library Cooperative

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

Our discussion and analysis of the Superiorland Library Cooperative's (the Cooperative) financial performance provides an overview of the Cooperative's financial activities for the year ended September 30, 2018. Please read it in conjunction with the financial statements, which begin as listed in the Table of Contents.

#### **FINANCIAL HIGHLIGHTS**

- Net position for the Cooperative as a whole was reported at \$540,781. Net position is comprised of 100% governmental activities. This represents an increase of \$849 from prior year when net position was reported at \$539,932.
- During the year, the Cooperative's total expenses were \$748,719, while revenues from all sources totaled \$749,568 resulting in an increase in net position of \$849.

#### **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 Cooperative as a whole and present a longer-term view of the Cooperative's finances.

#### **Reporting the Cooperative as a Whole**

One of the most important questions asked about the Cooperative's finances is "Is the Cooperative 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 Cooperative 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 Cooperative's *net position* and changes in them. You can think of the Cooperative's net position - the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources - as one way to measure the Cooperative's financial health, or *financial position*. Over time, *increases or decreases* in the Cooperative'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 Cooperative's operating base and the condition of the Cooperative's capital assets, to assess the *overall financial health* of the Cooperative.

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

#### **Reporting the Cooperative's Most Significant Funds**

The Cooperative only reports one fund which is the General Fund. The fund financial statements are reported in combination with the government-wide financial statements as listed in the Table of Contents. 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 Cooperative's general government operations and the basic services it provides. 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 Cooperative's program.

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

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.

**Superiorland Library Cooperative as a Whole**

Table 1 provides a summary of the Cooperative's net position as of September 30, 2018 and 2017.

**Table 1  
Statement of Net Position**

	2018	2017
Current and other assets	\$804,641	\$848,207
Capital assets, net	45,371	54,781
Total Assets	<u>850,012</u>	<u>902,988</u>
Deferred outflows of resources	70,399	67,682
Current liabilities	122,635	147,172
Noncurrent liabilities	246,471	283,566
Total Liabilities	<u>369,106</u>	<u>430,738</u>
Deferred inflows of resources	10,524	-
Net Position:		
Net investment in capital assets	45,371	54,781
Restricted	63,669	65,324
Unrestricted	431,741	419,827
Total Net Position	<u>\$540,781</u>	<u>\$539,932</u>

Net Position of the Cooperative's governmental activities stood at \$540,781. Unrestricted net position — the part of net position that could be used to finance day-to-day activities stood at \$431,741.

The \$431,741 in unrestricted net position represents the accumulated results of all past years' operations. The results of this year's operations for the Cooperative as a whole are reported in the Changes of Activities (see Table 2), which shows the changes in net position for fiscal year 2018 and 2017.

**Table 2  
Statement of Activities**

	2018	2017
Program Revenues:		
Charges for services	\$293,686	\$289,508
Operating grants and contributions	140,187	118,375
General Revenues:		
Sources not restricted to specific program	310,004	281,942
Interest earnings	4,295	4,262
Miscellaneous	1,396	-
Total Revenues	<u>749,568</u>	<u>694,087</u>

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

**Table 2  
Statement of Activities (Continued)**

	2018	2017
Program Expenses:		
Library services	\$748,719	\$704,171
Loss on sale of assets	-	-
Total Expenses	<u>748,719</u>	<u>704,171</u>
Change in net position	849	(10,084)
Net Position, beginning	539,932	550,016
Net Position, Ending	<u><u>\$540,781</u></u>	<u><u>\$539,932</u></u>

The Cooperative's total revenues were \$749,568. The total cost of all programs and services was \$748,719 resulting in an increase in net position of \$849 as a result of fiscal year 2018 operations. Total expenditures were \$768,597; this was decreased by \$19,878 (depreciation expense of \$9,410, a PTO decrease of \$5,654, pension expense of \$23,634, less capital outlay expenditures of \$0, leaving total expenses of \$748,719, which resulted in an increase in net position of \$849

**SUPERIORLAND LIBRARY COOPERATIVE'S FUNDS**

As the Cooperative completed the year, its General Fund (the only governmental fund) reported a fund balance of \$682,006 with a decrease of \$19,029 from the beginning of the year. This increase was the result of a reduction of expected expenses in some budget line items during the fiscal year.

**General Fund Budgetary Highlights**

The Cooperative's Board adopted the fiscal year 2018 general fund budget in September 2017 and the budget was amended as required throughout the year. The final projected revenues were \$779,161 and projected expenditures were \$830,644, resulting in an anticipated decrease in the fund balance of \$51,483. The actual change in fund balance for the year was a negative \$19,029 as a result of a voluntary payment of \$51,085 to the Cooperative's MERS defined benefit.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal 2018, the Cooperative had \$45,371 invested in equipment. (See Table 3)

**Table 3  
Capital Assets at Year-End  
(Net of Accumulated Depreciation)**

	2018	2017
Land	\$-	\$-
Furniture & fixtures	38,767	47,436
Buildings and improvements	6,604	7,345
Capital Assets (Net)	<u><u>\$45,371</u></u>	<u><u>\$54,781</u></u>

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

### **Debt**

The Cooperative 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 2018/2019 as they were for FY 2017/2018 with some minor changes.

### **CONTACTING THE COOPERATIVE FINANCIAL MANAGEMENT**

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

**Superiorland Library Cooperative**

STATEMENT OF NET POSITION AND  
GOVERNMENTAL FUND BALANCE SHEET

September 30, 2018

	General Fund	Adjustments	Statement of Net Position
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 741,046	\$ -	\$ 741,046
Accounts receivable	21,470	-	21,470
Other assets	3,029	-	3,029
Prepaid expenses	39,096	-	39,096
Capital assets, net of depreciation	-	45,371	45,371
<b>TOTAL ASSETS</b>	<b>804,641</b>	<b>45,371</b>	<b>850,012</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Change in pension investment projections	-	-	-
Employer contributions subsequent to measurement date	-	70,399	70,399
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>-</b>	<b>70,399</b>	<b>70,399</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 804,641</b>		
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	\$ 614	\$ -	\$ 614
Unearned revenue	122,021	-	122,021
Other Liabilities	-	-	-
Long-term liabilities:			
Accrued paid time off	-	5,983	5,983
Net pension liability	-	240,488	240,488
<b>TOTAL LIABILITIES</b>	<b>122,635</b>	<b>246,471</b>	<b>369,106</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>-</b>	<b>10,524</b>	<b>10,524</b>
<b>FUND BALANCE</b>			
Non-spendable	39,096	(39,096)	-
Restricted	24,573	(24,573)	-
Assigned	5,983	(5,983)	-
Unassigned	612,354	(612,354)	-
<b>TOTAL FUND BALANCE</b>	<b>682,006</b>	<b>(682,006)</b>	<b>-</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b>\$ 804,641</b>		
<b>NET POSITION</b>			
Net investment in capital assets		45,371	45,371
Restricted		63,669	63,669
Unrestricted		431,741	431,741
<b>TOTAL NET POSITION</b>		<b>\$ 540,781</b>	<b>\$ 540,781</b>

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

**Superiorland Library Cooperative**

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

September 30, 2018

**Total Fund Balances for Governmental Funds** \$ 682,006

*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.

	\$	97,943	
Cost of capital assets		97,943	
Accumulated depreciation		<u>(52,572)</u>	45,371

Net pension liability, and related deferred (outflows)/inflows of resources, is not due and payable in the current period and is not reported in the funds.

Net pension liability		240,488	
Deferred (outflows) of resources related to net pension liability		-	
Employer contributions subsequent to measurement date		(70,399)	
Deferred inflows of resources related to net pension liability		<u>10,524</u>	(180,613)

Long-term liabilities are not due and payable in the current period and are not reported in the funds. Long-term liabilities at year-end consist of accrued paid time off.

(5,983)

**NET POSITION OF GOVERNMENTAL ACTIVITIES**

\$ 540,781

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

**Superiorland Library Cooperative**

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

For the year ended September 30, 2018

	General Fund	Adjustments	Statement of Activities
	<u>          </u>	<u>          </u>	<u>          </u>
<b>EXPENDITURES/EXPENSES:</b>			
Library services	\$ 768,597	\$ (19,878)	\$ 748,719
Capital outlay	-	-	-
Loss on disposal of assets	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>768,597</b>	<b>(19,878)</b>	<b>748,719</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>PROGRAM REVENUES:</b>			
Charges for services	293,686	-	293,686
Operating grants and contributions	140,187	-	140,187
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL PROGRAM REVENUES</b>	<b>433,873</b>	<b>-</b>	<b>433,873</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>NET PROGRAM EXPENSE</b>			<b>314,846</b>
			<u>          </u>
<b>GENERAL REVENUES:</b>			
State grants - unrestricted	310,004	-	310,004
Interest income	4,295	-	4,295
Miscellaneous	1,396	-	1,396
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL GENERAL REVENUES</b>	<b>315,695</b>	<b>-</b>	<b>315,695</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>(19,029)</b>	<b>19,029</b>	
<b>CHANGE IN NET POSITION</b>		<b>849</b>	<b>849</b>
<b>FUND BALANCE/NET POSITION:</b>			
Beginning of year	701,035		539,932
	<u>          </u>		<u>          </u>
<b>END OF THE YEAR</b>	<b>\$ 682,006</b>		<b>\$ 540,781</b>
	<u>          </u>		<u>          </u>

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

**Superiorland Library Cooperative**

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, 2018

**Net Change in Fund Balances - Total Governmental Funds** \$ (19,029)

*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	\$ (9,410)	
Capital outlays	-	
Loss on Disposal of Assets	-	(9,410)

Net pension liability reported in the statement of activities does not require the use of current resources, and therefore, is not reported in the fund statements until it is due for payment.	23,634
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Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	5,654
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<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<u><u>\$ 849</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

# SUPERIORLAND LIBRARY COOPERATIVE

## NOTES TO FINANCIAL STATEMENTS

September 30, 2018

### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The operations of the Superiorland Library Cooperative (the Cooperative) are accounted for with a separate set of self-balancing accounts. The accounting policies of the Cooperative 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 Cooperative 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 Cooperative 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 Cooperative are organized on the basis of funds. The operations of the Cooperative'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 Cooperative.

#### **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 and liabilities 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 Cooperative’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. 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 Cooperative 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

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

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.

**Deferred Outflows of Resources** - In addition to assets, the statement of net 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 Cooperative has two items that qualify for reporting in this category:

The Cooperative reports deferred outflows of resources for change in expected and actual investment returns, assumptions, and benefits provided in its pension plan.

The Cooperative's Pension Plan has a plan year of January 1 to December 31 while the Cooperative has a fiscal year of October 1 to September 30. Under GASB 71, the contributions made to the plan subsequent to the measurement date are reported as deferred outflows of resources.

**Compensated Absences** - The Cooperative's policies regarding compensated absences permits employees to accumulate earned but unused personal time off. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

**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 Cooperative has one item that qualifies for reporting in this category.

The Cooperative reports deferred inflows of resources for change in expected and actual investment returns, assumptions, and benefits provided in its pension plan.

**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 State funding and interest earnings.

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 Cooperative'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.

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

**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, deferred outflows of resources, liabilities, and deferred inflows of resources 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 February 4, 2019, which is the date of the accompanying Independent Auditor's Report, which is the date the financial statements were available to be issued.

## NOTE B – DEPOSITS AND INVESTMENTS:

The Cooperative's cash and equivalents, as reported in the Statement of Net Position, consisted of the following:

Cash in demand accounts	\$149,941
Cash in savings accounts	226,274
Certificates of deposit	364,831
Total	<u>\$741,046</u>

### *Custodial Credit Risk – Deposits*

Custodial credit risk is the risk that in the event of a bank failure, the Cooperative's deposits may not be returned to it. State law does not require and the Cooperative does not have a deposit policy for custodial credit risk. The carrying amount of the Cooperative's deposits with financial institutions was \$741,046 and the bank balance was \$764,145. Of the bank balance, \$764,145 or approximately 100% was covered by federal depository insurance according to FDIC regulations. The bank balance is categorized as follows:

Amount insured by the FDIC	\$764,145
Amount collateralized	-
Amount uncollateralized and uninsured	-
Total	<u>\$764,145</u>

### *Investments*

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of September 30, 2018, the Cooperative had no investments.

### *Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Cooperative's investments. The Cooperative does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**NOTE B – DEPOSITS AND INVESTMENTS (Continued):***Risk*

Michigan statutes (Act 196, PA 1997) authorize the Cooperative to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

The Cooperative has no investment policy that would further limit its investment choices.

**NOTE C – CAPITAL ASSETS:**

Capital asset activity for the year ended September 30, 2018 is as follows:

	Balance 9/30/17	Additions	Disposals	Balance 9/30/18
Asset Cost:				
Land	\$-	\$-	\$-	\$-
Buildings and improvements	11,110	-	-	11,110
Furniture and fixtures	86,833	-	-	86,833
Total Asset Cost	<u>97,943</u>	<u>-</u>	<u>-</u>	<u>97,943</u>
Accumulated Depreciation:				
Buildings and improvements	(3,765)	(741)	-	(4,506)
Furniture and fixtures	(39,397)	(8,669)	-	(48,066)
Total Accumulated Depreciation	<u>(43,162)</u>	<u>(9,410)</u>	<u>-</u>	<u>(52,572)</u>
Net Capital Assets	<u>\$54,781</u>	<u>(\$9,410)</u>	<u>\$-</u>	<u>\$45,371</u>

Depreciation expense charged to governmental activities was \$9,410.

**NOTE D – ACCRUED PAID TIME OFF:**

The entity records on the government-wide Statement of Net Position the accrued liability arising from accumulated vested personal time off which is payable to entity employees when they separate from employment. The employees are compensated for personal time off on a scale based on years of service with the Cooperative. The entity's personal time off policy provides for up to one-half of an employee's accumulated personal time off hours to be paid to the employee if they have worked with the entity for at least 8 years. For employees with less than 8 years of service, personal time off payable upon separation ranges from 10%-40% depending on the number of years employed with the Cooperative. The entity's vacation policy provides for up to two years of an employee's unused vacation leave to be paid to the employee. The non-current portion of accumulated personal time off payable is as follows:

**NOTE D – ACCRUED PAID TIME OFF (Continued):**

	Balance 9/30/17	Additions	Disposals	Balance 9/30/18	Due within One Year
Paid Time Off:					
Personal time off	\$4,254	\$-	(\$1,227)	\$3,027	\$-
Vacation	7,383	-	(4,427)	2,956	-
Total Paid Time Off	<u>\$11,637</u>	<u>\$-</u>	<u>(\$5,654)</u>	<u>\$5,983</u>	<u>\$-</u>

**NOTE E – DEFINED BENEFIT PENSION PLAN:**

**Summary of Significant Accounting Policies Pensions:**

For purposes of measuring the Net Pension Liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**General Information about the Pension Plan:**

Plan Description

The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at [www.mersofmich.com](http://www.mersofmich.com).

Benefits Provided

	<u>2017 Valuation</u>
<b>General: Closed to New Hires</b>	
Benefit Multiplier:	2.00% Multiplier (no max)
Normal Retirement Age:	60
Vesting:	8 years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
COLA for Future Retirees:	2.50% (Non-Compound)
Employee Contributions:	4.70%
Act 88:	No

**NOTE E – DEFINED BENEFIT PENSION PLAN (Continued):**

Employees covered by benefit terms

At the December 31, 2017 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	2
Active employees	0
Total	<u>5</u>

Contributions

The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

The contribution rates as a percentage of payroll as of December 31, 2017 valuation are as follows:

<u>Division:</u>	<u>Employer</u>	<u>Employee</u>
General	\$1,875	4.70%

Net Pension Liability

The employer's Net Pension Liability was measured as of December 31, 2017, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

Actuarial assumptions

The total pension liability in the December 31, 2017 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement: Inflation: 2.5% Salary Increases: 3.75% in the long-term, Investment yield of 7.75%, net of administrative and investment expenses, including inflation.

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price of 3%-4%

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2009-2013.

**NOTE E – DEFINED BENEFIT PENSION PLAN (Continued):**

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

Discount rate

The discount rate used to measure the total pension liability is 8.00% for 2017. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Changes in Net Pension Liability**

Calculating the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Pension (b)	Net Pension Liability (a)-(b)
Changes in Net Pension Liability			
Balances at 12/31/16	\$973,707	\$701,778	\$271,929
Changes for the Year:			
Service Costs	-	-	-
Interest on Total Pension Liability	74,758	-	74,758
Changes in benefits	-	-	-
Difference between expected and actual experience	29,811	-	29,811
Changes in assumption	-	-	-
Employer Contributions	-	43,917	(43,917)
Employee Contributions	-	3,415	(3,415)
Net investment Income	-	90,104	(90,104)
Benefit payments, including employee refunds	(78,460)	(78,460)	-
Administrative expense	-	(1,429)	1,429
Other changes	(4)	(1)	(3)
Net Changes	26,105	57,546	(31,441)
Balances as of 12/31/17	\$999,812	\$759,324	\$240,488

**NOTE E – DEFINED BENEFIT PENSION PLAN (Continued):**

Sensitivity of the Net Pension Liability to changes in the discount rate

The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8.00%, as well as what the employer’s Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.00%) or 1% higher (9.00%) than the current rate.

	1% Decrease 7.00%	Current Discount Rate (8.00%)	1% Increase 9.00%
Net Pension Liability at 12/31/17	\$240,488	\$240,488	\$240,488
Change in Net Pension Liability (NPL)	92,918	-	(79,964)
Calculated NPL for your Notes	<u>\$333,406</u>	<u>\$240,488</u>	<u>\$160,524</u>

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses.

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:**

For the year ended September 30, 2018, the employer recognized pension expense of \$53,207. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences in experience	\$-	\$-
Differences in assumptions	-	-
(Excess) Deficit Investment Returns	-	(10,524)
Subtotal	-	(10,524)
Contributions subsequent to the measurement date*	70,399	-
Total	<u>\$70,399</u>	<u>(\$10,524)</u>

\*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending September 30, 2018.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Deferred (Inflows) and Deferred Outflows of Resources by Year (to Be Recognized in Future Pension Expenses)</b>	
Plan Year Ended December 31,	Amount
2018	\$5,463
2019	2,711
2020	(11,646)
2021	(7,052)
2022	-
Thereafter	<u>(\$10,524)</u>

**NOTE E – DEFINED BENEFIT PENSION PLAN (Continued):**

**Payable to Pension Plan:**

At September 30, 2018, the Cooperative reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended September 30, 2018.

**NOTE F – DEFERRED COMPENSATION PLAN:**

The Superiorland Library Cooperative offers its employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. The plan, available to all employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency. The amounts deferred under the plan are held in a trust for the exclusive benefit of plan participants and their beneficiaries. The plan's participants have the right to designate how the funds will be invested. Therefore, the Cooperative has no liability for losses under the plans.

**NOTE G – FUND BALANCES – GOVERNMENTAL FUNDS:**

As of September 30, 2018, 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 Cooperative. 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 Cooperatives adopted policy, only the Board of Directors may assign amounts for specific purposes.

*Unassigned* — all other spendable amounts.

As of September 30, 2018, fund balances are composed of the following:

	<u>General Fund</u>
Non-spendable:	
Prepaid expenses	\$39,096
Restricted:	
Lilja Memorial Library Fund	24,573
Assigned:	
Paid time off	5,983
Unassigned	612,354
Total Fund Balances	<u><u>\$682,006</u></u>

**NOTE G – FUND BALANCES – GOVERNMENTAL FUNDS (Continued):**

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 an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Cooperative considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Cooperative 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 H – REVENUES:**

The Superiorland Library Cooperative receives its revenues from Federal and State governments in the form of grants-in-aid. The Cooperative also received State support for local member libraries based on population and square miles of areas covered.

**NOTE I – OPERATING LEASE COMMITMENTS:**

Superiorland Library Cooperative has a triple net lease with Northern Michigan Library Network, a jointly governed organization, to lease a building. Future minimum rental commitments for the lease as of September 30, 2018 are as follows:

Year	General Fund
2019	\$1
2020	1
2021	1
2022	1
2023	1
2024-2028	5
Total Future Minimum Lease Payments	\$10

**NOTE J – 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 Superiorland Library Cooperative’s earnings shall inure to the benefit of the member libraries.

Upon establishment, the Northern Michigan Library Network was governed by a board consisting of seven members of which two (2) board members are appointed by Superiorland Library Cooperative, two (2) board members are appointed by the Peter White Public Library Board, two (2) board members are appointed by the Dickinson County Library, and one (1) board member is appointed by the West Iron District Library.

## **NOTE J – JOINTLY GOVERNED ORGANIZATION (Continued):**

On January 8, 2010, the Northern Michigan Library Network Agreement between Superiorland Library Cooperative and Member Libraries was amended to add the Bayliss Public Library as a fifth participating library and to add two more members to the Superiorland Library Cooperative Board, for a total of nine voting members. In addition to the board members listed above, the board consists of two (2) members appointed by the Bayliss Public 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 (\$1).

## **NOTE K – SINGLE AUDIT:**

The Cooperative's audited financial statements report a total of \$0 in federal expenditures. As the amount is less than the single audit threshold of \$750,000 an audit in accordance with the Uniform Guidance is not required.

## **NOTE L – NEW GASB STANDARDS:**

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

### Recently Issued and Adopted Accounting Pronouncements

None.

### Other Recently Issued Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 75 provides improved accounting and financial reporting by state and local governments for postemployment benefits other than pension. It also provides information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity. This statement is effective for periods beginning after June 15, 2017. The Cooperative does not have other postemployment benefits that meet the criteria for GASB 75; therefore, GASB 75 is not applicable to the Cooperative.

In March 2017, the GASB issued Statement No. 85, Omnibus 2017. GASB 85 provides guidance on a variety of topics including issues related to blending component units, goodwill, fair value

## **NOTE L – NEW GASB STANDARDS (Continued):**

measurement and application, and postemployment benefits (pensions and other postemployment benefits). Some of the items specifically addressed relate to the following: 1) Measuring certain money market investments and participating interest-earning investment contracts at amortized cost 2) Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus 3) Recognizing on-behalf payments for pension or OPEB in employer financial statements 4) Presenting payment-related measures in required supplementary information for purposes or reporting by OPEB plans and employers that provide OPEB 5)

Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plan. This statement is effective for periods beginning after June 15, 2017. The Cooperative does not have pension and OPEB plans that meet the criteria for GASB 85; therefore, GASB 85 is not applicable to the Cooperative.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. GASB 81 provides recognition and measurement guidance when a government is the beneficiary of an irrevocable split-interest agreement. The additional criteria requires governments that receive irrevocable split-interest agreement resources to recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The government is also required to recognize revenue when resources become applicable to the reporting period. This statement is effective for periods beginning after December 15, 2016. Cooperative does not have any irrevocable split-interest agreements that meet the criteria for GASB 81; therefore, GASB 81 is not applicable to the Cooperative.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. GASB 86 provides improved consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This statement is effective for periods beginning after June 15, 2017. The Cooperative does not have any debt extinguishment issues that meet the criteria for GASB 86; therefore, GASB 86 is not applicable to the Cooperative.

## **NOTE M – UPCOMING CHANGES IN ACCOUNTING STANDARDS:**

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

### GASB 83: Certain Asset Retirement Obligations

*Effective for fiscal years beginning after June 15, 2018 (Cooperative's fiscal year 2019)*

This Statement 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.

## **NOTE M – UPCOMING CHANGES IN ACCOUNTING STANDARDS (Continued):**

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. It requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. A deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

This current value of a government's AROs are required to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays.

The statement also gives guidance on situations in which a government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports its ARO in accordance with the guidance of another recognized accounting standards setter. The government's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this Statement.

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. 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 requires similar disclosures for a government's minority shares of AROs.

### GASB 84: Fiduciary Activities

*Effective for fiscal years beginning after December 15, 2018 (Cooperative'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 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 (Cooperative'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

## **NOTE M – UPCOMING CHANGES IN ACCOUNTING STANDARDS (Continued):**

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 88: Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements**

*Effective for fiscal years beginning after June 15, 2018 (Cooperative's fiscal year 2019)*

This Statement defines debt for purposes of disclosure in notes to financial statements 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 requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms 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.

This Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

### **GASB 89: Accounting for Interest Cost incurred before the end of a Construction Period**

*Effective for fiscal years beginning after December 15, 2019 (Cooperative'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 (Cooperative'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 M – UPCOMING CHANGES IN ACCOUNTING 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.

**NOTE N – VICTORIA WOLF ESTATE BEQUEST:**

The U.P Library for the Blind, which is operated by the Superiorland Library Cooperative, was one of the beneficiaries of the estate of Victoria E. Wolf, a former U.P. Library for the Blind patron. During the fiscal year the Cooperative received one disbursement from the estate which was deposited into a CD and recorded as deferred revenue in the financial statements. As of September 30, 2018, unearned revenue related to the bequest totaled \$105,482.

**REQUIRED SUPPLEMENTAL  
INFORMATION**

**Superiorland Library Cooperative**

MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

DEFINED BENEFIT CONTRIBUTION PENSION PLAN

SCHEDULE OF CHANGES IN THE COOPERATIVE'S NET PENSION LIABILITY AND RELATED RATIOS

	Plan Year Ending December 31,			
	2017	2016	2015	2014
<b>Change in total pension liability</b>				
Service cost	\$ -	\$ 12,533	\$ -	\$ -
Interest	74,758	74,436	72,344	71,776
Differences between expected and actual experience	29,811	923	5,337	-
Pension changes in assumptions	-	-	45,511	-
Benefit payments, including refunds of member contributions	(78,460)	(76,736)	(75,082)	(54,696)
Other Change	(4)	4	-	-
<b>Net change in total pension liability</b>	<u>26,105</u>	<u>11,160</u>	<u>48,110</u>	<u>17,080</u>
<b>Total pension liability, beginning</b>	<u>973,707</u>	<u>962,547</u>	<u>914,437</u>	<u>897,357</u>
<b>Total pension liability, ending (a)</b>	<u>999,812</u>	<u>973,707</u>	<u>962,547</u>	<u>914,437</u>
<b>Change in plan fiduciary net position</b>				
Contributions - employer	43,917	9,383	3,219	4,005
Contributions - employee	3,415	3,366	25	1,876
Net investment income	90,104	75,674	(10,810)	48,349
Benefit payments, including refunds of member contributions	(78,460)	(76,736)	(75,082)	(54,696)
Administrative expense	(1,429)	(1,497)	(1,635)	(1,766)
Other change	(1)	-	-	-
<b>Net change in plan fiduciary net position</b>	<u>57,546</u>	<u>10,190</u>	<u>(84,283)</u>	<u>(2,232)</u>
<b>Plan fiduciary net position, beginning</b>	<u>701,778</u>	<u>691,588</u>	<u>775,871</u>	<u>778,103</u>
<b>Plan fiduciary net position, ending (b)</b>	<u>759,324</u>	<u>701,778</u>	<u>691,588</u>	<u>775,871</u>
<b>Cooperative's net pension liability, ending (a) - (b)</b>	<u>\$ 240,488</u>	<u>\$ 271,929</u>	<u>\$ 270,959</u>	<u>\$ 138,566</u>
Plan fiduciary net position as a percentage of the total pension liability	75.95%	72.07%	71.85%	84.85%
Covered-employee payroll	\$ -	\$ 71,615	\$ 6,437	\$ -
Cooperative's net pension liability as a percentage of covered payroll	0.00%	379.71%	4209.40%	0.00%

**Notes to Schedule:**

*Benefit changes: There were no changes in benefit provisions affecting the 2017 valuation.*

*Assumption and Method changes: There were no changes in these assumptions affecting the 2017 valuation.*

Above amounts are based on measurement date, which may not necessarily tie to the fiscal year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively.

Ultimately ten years of data will be presented.

**Superiorland Library Cooperative**  
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM  
DEFINED BENEFIT CONTRIBUTION  
SCHEDULE OF CONTRIBUTIONS

	Plan Year Ending December 31,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 43,917	\$ 9,383	\$ 3,219	\$ 4,005	\$ 5,101	\$ 4,800	\$ 4,300	\$ 1,000	\$ 5,214	\$ 6,699
Contributions in relation to actuarially determined contribution	<u>\$ 43,917</u>	<u>\$ 9,383</u>	<u>3,219</u>	<u>4,005</u>	<u>5,101</u>	<u>4,800</u>	<u>4,300</u>	<u>1,000</u>	<u>5,214</u>	<u>6,699</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee Payroll	\$ -	\$ 71,615	\$ 6,437	\$ -	\$ 34,858	\$ 33,667	\$ 33,011	\$ 33,501	\$121,549	\$117,123
Contributions as Percentage of Covered-employee Payroll	#DIV/0!	13.10%	50.01%	0.00%	14.63%	14.26%	13.03%	2.98%	4.29%	5.72%

**Notes to Schedule of Contributions**

Valuation date December 31, 2017  
Notes Actuarially determined contribution rates are calculated as of December 31, that is twenty-one months prior to the beginning of the fiscal year of with the contributions are reported.  
Other information There were no benefit changes during the year.  
There were no changes in actuarial assumptions or methods during the year.

Methods and assumptions used to determine contribution rates:

Actuarial cost method Entry Age  
Amortization method Level percentage of payroll, open  
Remaining amortization period 25 years  
Asset valuation method 5 year smoothed  
Inflation 2.50%  
Salary increases 3.75%  
Retirement age 7.75%  
Investment rate of return Varies depending on plan adoption  
Mortality rates 50% Female/50% Male RP-2014 Group Annuity Mortality Table  
Annuity Mortality Table

**Superiorland Library Cooperative**

GENERAL FUND

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

For the year ended September 30, 2018

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>				
Federal grants	\$ -	\$ -	\$ -	\$ -
State grants - local unit membership	131,000	130,066	130,066	-
State grants	307,103	310,004	310,004	-
Private foundation grant	-	-	-	-
Interest income	2,850	2,850	4,295	1,445
Contracted service revenue	149,088	136,789	130,578	(6,211)
Donations	-	1,094	1,119	25
TV Whitespace Grant	-	13,436	9,002	(4,434)
Miscellaneous revenue	1,500	1,422	1,396	(26)
Rebilled supplies and equipment	60,000	80,000	78,174	(1,826)
Rebilled professional and contractual	-	-	-	-
Rebilled group purchases/subscriptions	90,000	103,500	84,934	(18,566)
<b>TOTAL REVENUES</b>	<u>741,541</u>	<u>779,161</u>	<u>749,568</u>	<u>(29,593)</u>
<b>EXPENDITURES:</b>				
Personnel services	309,787	293,456	281,568	11,888
Employees welfare and benefits:				
Social security	23,699	23,453	21,887	1,566
Hospitalization insurance	18,498	22,326	17,839	4,487
Life insurance	354	411	324	87
Unemployment compensation	898	886	890	(4)
Retirement	43,885	95,555	94,785	770
125K flex benefits	275	265	250	15
Utilities	6,270	6,270	5,564	706
Professional and contractual	69,728	79,586	76,329	3,257
Communication	3,283	2,850	2,732	118
Reimbursement	500	500	500	-
Conferences/workshops	21,600	16,307	13,199	3,108
Transportation	19,550	16,315	11,597	4,718
Printing and publishing	2,600	2,769	1,757	1,012
Promotion	3,250	600	48	552
Insurance and bonds	3,500	3,271	3,234	37
Maintenance	4,770	4,790	2,227	2,563
Membership fees	1,560	1,360	1,055	305
Subscriptions	46,856	46,256	46,205	51
Computer supplies	14,991	22,347	17,747	4,600
Office supplies	7,081	7,221	5,754	1,467
Capital outlay	-	-	-	-
Interest	350	350	-	350
Building lease	-	-	-	-
Contingency	-	-	-	-
Rebilled supplies and equipment	60,000	80,000	78,172	1,828
Rebilled professional and contractual	-	-	-	-
Rebilled group purchases/subscriptions	90,000	103,500	84,934	18,566
<b>TOTAL EXPENDITURES</b>	<u>753,285</u>	<u>830,644</u>	<u>768,597</u>	<u>62,047</u>
<b>EXCESS REVENUES OVER (UNDER) EXPENDITURES</b>	(11,744)	(51,483)	(19,029)	32,454
Fund Balance, beginning of year	701,035	701,035	701,035	-
Fund Balance, end of year	<u>\$ 689,291</u>	<u>\$ 649,552</u>	<u>\$ 682,006</u>	<u>\$ 32,454</u>

**OTHER SUPPLEMENTAL  
INFORMATION**

**Superiorland Library Cooperative**

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the year ended September 30, 2018

	Restricted	Assigned		Unassigned	Totals
	Lilja Memorial Library Fund	Paid Time Off	GLTB Fund	General	
<b>REVENUES:</b>					
Federal grants	\$ -	\$ -	\$ -	\$ -	\$ -
State grants - local unit membership	-	-	-	130,066	130,066
State grants	-	-	41,073	268,931	310,004
Interest income	159	-	-	4,136	4,295
Contracted service revenue	-	-	-	130,578	130,578
Donations	-	-	25	1,094	1,119
Miscellaneous revenue	-	-	-	1,396	1,396
TV Whitespace Grant	-	-	-	9,002	9,002
Rebilled supplies and equipment	-	-	-	78,174	78,174
Rebilled professional and contractual	-	-	-	-	-
Rebilled group purchases/subscriptions	-	-	-	84,934	84,934
<b>TOTAL REVENUES</b>	<b>159</b>	<b>-</b>	<b>41,098</b>	<b>708,311</b>	<b>749,568</b>
<b>EXPENDITURES:</b>					
Personnel services	-	-	36,881	244,687	281,568
Employees welfare and benefits:					
Social security	-	-	2,851	19,036	21,887
Hospitalization insurance	-	-	1,075	16,764	17,839
Life insurance	-	-	-	324	324
Unemployment compensation	-	-	123	767	890
Retirement	-	-	1,505	93,280	94,785
125K flex benefits	-	-	-	250	250
Computer supplies	-	-	124	17,623	17,747
Operating supplies	-	-	2,183	3,571	5,754
Utilities	-	-	935	4,629	5,564
Professional and contractual	-	-	1,184	75,145	76,329
Communication	-	-	1,150	1,582	2,732
Conferences/workshops	-	-	331	12,868	13,199
Transportation	-	-	411	11,186	11,597
Printing and publishing	-	-	529	1,228	1,757
Promotion	-	-	48	-	48
Insurance and bonds	-	-	330	2,904	3,234
Maintenance	-	-	368	1,859	2,227
Membership fees	-	-	-	1,055	1,055
Subscriptions	-	-	-	46,205	46,205
Reimbursement	-	-	-	500	500
Contingency/Tech. reserve	-	-	-	-	-
Building lease	-	-	-	-	-
Capital outlay					
Land	-	-	-	-	-
Building	-	-	-	-	-
Books	-	-	-	-	-
Equipment and furniture	-	-	-	-	-
Interest	-	-	-	-	-
Rebilled supplies and equipment	-	-	-	78,172	78,172
Rebilled professional and contractual	-	-	-	-	-
Rebilled group purchases/subscriptions	-	-	-	84,934	84,934
<b>TOTAL EXPENDITURES</b>	<b>-</b>	<b>-</b>	<b>50,028</b>	<b>718,569</b>	<b>768,597</b>
<b>EXCESS REVENUES OVER (UNDER) EXPENDITURES</b>	<b>159</b>	<b>-</b>	<b>(8,930)</b>	<b>(10,258)</b>	<b>(19,029)</b>

**Superiorland Library Cooperative**

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the year ended September 30, 2018

	<u>Restricted</u>	<u>Assigned</u>	<u>Unassigned</u>		
	Lilja Memorial Library Fund	Paid Time Off	GLTB Fund	General	
				<u>Totals</u>	
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	\$ -	\$ -	\$ 8,930	\$ -	\$ 8,930
Transfers (out)	-	(5,654)	-	(3,276)	(8,930)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	-	(5,654)	8,930	(3,276)	-
<b>CHANGE IN FUND BALANCES</b>	159	(5,654)	-	(13,534)	(19,029)
Fund balances, beginning of year	24,414	11,637	-	664,984	701,035
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 24,573</u>	<u>\$ 5,983</u>	<u>\$ -</u>	<u>\$ 651,450</u>	<u>\$ 682,006</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  
Superiorland Library Cooperative  
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 the Cooperative, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements and have issued our report thereon dated February 4, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Cooperative'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 Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative'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 2018-001.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Cooperative'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 Cooperative's Response to Findings**

The Cooperative's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The Cooperative'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

February 4, 2019

## COMMUNICATIONS SECTION



***Superiorland Library Cooperative***  
***Report to Management***  
***For the Year Ended September 30, 2018***

To the Board of Directors of the  
Superiorland Library Cooperative  
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 the Cooperative as of and for the year ended September 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Cooperative'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 Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative'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**

**2018-001 SEGREGATION OF DUTIES (REPEAT)**

**Condition/Criteria:** The size of the Cooperative'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 Cooperative's financial affairs by the Board of Directors.

**Management Response-Corrective Action Plan:**

- Contact Person(s) Responsible for Correction:
  - Director
- Corrective Action Planned:
  - See separate Corrective Action Plan
- Anticipated Completion Date:
  - Not applicable

The Cooperative'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

February 4, 2019



***Superiorland Library Cooperative***  
*Communication with Those Charged with Governance*  
*For the Year Ended September 30, 2018*

February 4, 2019

To the Board of Directors of the  
Superiorland Library Cooperative  
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 Superiorland Library Cooperative (the Cooperative) for the year ended September 30, 2018. 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 November 5, 2018. 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 Cooperative are described in the table of contents 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 Cooperative 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 estimates affecting the Cooperative's financial statements were:

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

Management's estimate of the accrued sick and vacation is based on employee pay rates and the various subsidiary ledgers maintained for hour balances. We evaluated the key factors and assumptions used to develop the accrued employee benefit balances in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the Cooperative's Net Pension Liability is based on an actuarial performed for the Municipal Employees' Retirement System of Michigan to determine its liability. We evaluated the key factors and assumptions used to develop the Cooperative's Net Pension Liability, based on information provided by the CBIZ Retirement Plan Services, 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 most sensitive disclosure affecting the financial statements was:

The disclosure of the Cooperative's Defined Benefit Pension Plan includes significant actuarial assumptions used in calculating the valuation. CBIZ Retirement Plan Services was the actuarial company hired by the Retirement Board of the Municipal Employees' Retirement System of Michigan (MERS) for preparation of the annual actuarial valuation. A full listing of the actuarial assumptions used can be found MERS' Comprehensive Annual Financial Report of the Fiscal Year Ended December 31, 2017.

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 dated February 4, 2019.

### *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 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 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 Superiorland 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.

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 2018-001.

### Other Matters

We applied certain limited procedures to 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.

We were engaged to report on other supplementary information, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Board of Directors of the  
Superiorland Library Cooperative

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of Superiorland Library Cooperative 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

# *Superiorland Library Cooperative*

*1615 Presque Isle Avenue*

*Marquette, MI 49855*

v: (906) 228-7697 (800) 562-8985

f: (906) 228-5627

<p><i>Corrective Action Plan</i> For the Year Ended September 30, 2018</p>
--

February 4, 2019

In response to the findings disclosed in the audited financial statements for the year ended September 30, 2018:

**2018-001 SEGREGATION OF DUTIES (REPEAT)**

**Corrective Action Plan:**

The Cooperative 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 Cooperative's 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.