

JACKSON DISTRICT LIBRARY

FINANCIAL STATEMENTS

DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Jackson District Library
Jackson, Michigan

We have audited the accompanying financial statements of the governmental activities of the *Jackson District Library, Jackson, Michigan*, as of and for the year ended December 31, 2017, which collectively comprise the Library's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

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

An audit 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.

Board of Trustees
Jackson District Library
Jackson, Michigan

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Jackson District Library of Jackson, Michigan, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 28 through 31 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 – Additional Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Jackson District Library of Jackson, Michigan's financial statements as a whole. The statement of activities-detail in the other information is presented for purposes of additional analysis and is not a required part of the financial statements. The statement of activities-detail is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Markowski & Company, CPAs

Jackson, Michigan
May 4, 2018

Management's Discussion and Analysis

Introduction

This discussion and analysis of the Jackson District Library's financial performance provides an overview of the Library's financial activities for the fiscal year ended December 31, 2017.

Financial Highlights

- The Library assets at the close of December 31, 2017, exceeded its liabilities by \$7,838,102 (net position). Of this amount, unrestricted net position of \$2,498,995 may be used to meet the Library's ongoing obligations.
- The total net position of the Library decreased by \$22,850 during the year.
- At the close of the current fiscal year, the Library's governmental fund reported a combined ending fund balance of \$3,171,709, a decrease of \$482,973. Approximately 97%, or \$3,075,160 of the fund balance is available for spending at the Library's discretion. Of this amount, 16%, or \$500,000, has been assigned by the Library's board for technology and other board plans.

Overview of Financial Statements

This audit report consists of the independent auditor's report, management discussion and analysis, basic financial statements, required supplementary information and additional information.

The basic financial statements comprise government-wide financial statements and fund financial statements focusing on the Library in more detail. The financial statements also contain notes to explain some of the information in the statements and provide more detailed data.

Government-Wide Financial Statements

The government-wide statements provide information to readers with a broad overview of the Library's finances, similar to the private business sector. The statement of net position includes information on all of the Library's assets and liabilities, with differences between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the Library's financial position is improving or deteriorating.

The statement of activities presents information showing how the Library's net position changed during the most recent fiscal year. All changes in net position are reported as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods such as earned but unused vacation and sick leave.

Management's Discussion and Analysis

Government-Wide Financial Statements (Continued)

In a condensed format, the following shows the net position and changes to net position as of December 31, 2017 and 2016:

	Governmental Activities	
	2017	2016
Assets	\$ 16,589,887	\$ 14,750,656
Deferred Outflows of Resources	230,520	542,780
Liabilities	1,129,264	1,973,275
Deferred Inflows of Resources	7,853,041	5,459,209
Net Position		
Invested in Capital Assets, net	5,254,570	5,423,227
Restricted	84,537	87,478
Unrestricted	2,498,995	2,350,247
Total Net Position	\$ 7,838,102	\$ 7,860,952
Revenues		
Property taxes	\$ 5,656,418	\$ 5,404,011
State shared revenues	104,818	104,789
Charges for services	290,760	248,071
Penal fines	701,201	771,983
Investment income	30,143	26,090
Contributions and grants	159,129	69,785
USF phone refunds	39,249	21,165
Other refunds	14,121	11,976
Total revenues	\$ 6,995,839	\$ 6,657,870
Expenditures		
Culture and recreation	7,018,689	6,855,043
Change in Net Position	\$ (22,850)	\$ (197,173)

Management's Discussion and Analysis

Fund Financial Statements

The fund financial statements provide more detailed information that is used to help maintain control over the Library's resources. Like other state and local governments, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Financial Analysis

As noted earlier, net position may serve as a useful indicator of the Library's financial position. As viewed in the Statement of Net Position, assets exceeded liabilities and deferred inflows of assets by \$7,838,102 and total net position decreased by \$22,850 during the year.

General Fund Budgetary Highlights

Actual revenues were lower than final budgeted amount by 1% due to penal fine collections being lower than expected. Expenditures were lower than the final budget by 7% as salaries and wages and capital expenditures were lower than budgeted.

There were no unfavorable budget variances between the final amended budget and actual results for the year ended December 31, 2017.

Capital Asset and Long-Term Debt Activity

The Library's investment in capital assets as of December 31, 2017, amounted to \$5,254,570 (net of accumulated depreciation). This investment in capital assets includes property, equipment and books and related materials.

Major capital asset events during the fiscal year included the following:

- \$71,413 was invested in improvements to Library branch buildings.
- \$696,551 was invested in books and related Library materials.
- \$81,653 was invested in computers and related software.

Funding Issues

The Library collected \$5,656,418 in property taxes in 2017; this reflected an increase of \$252,407 over 2016. This is due to a slight increase in property values. We are hopeful that stabilized and increasing property values holds true for the future. However, we remain concerned that foreclosures continue to directly affect the Library when the taxes are uncollectable after public auction; the County charges back the taxes for those properties if the proceeds do not cover the amount due for the foreclosed parcels. Low interest rates continue to impact our investment income.

Due to continued advocacy by the Michigan Library Association, state aid for public libraries has been stable in the past two years. Penal fine revenue collections decreased in 2017 from 2016 highlighting the uncertainty of penal fines collected annually.

Management's Discussion and Analysis

In 2016, the Library addressed the issue of retiree health insurance liability in response to the new guidelines as set forth by the Government Accounting Standards Board (GASB) for Other Post-Employment Benefits (OPEB). The Board worked with the unions to implement a change for those retirees and covered dependents who are over 65 that significantly addressed our unfunded liability.

Employees hired on or after July 1, 2007 are not eligible for retiree health care. Only full-time employees hired before July 1, 2007, retiring at age sixty or older with twelve or more continuous years of service with JDL are eligible for retiree health care. Prior to Medicare eligibility (currently age sixty-five), the retired employee is eligible to maintain coverage under JDL's existing medical benefit plan for employees. JDL will contribute toward the cost of the retired employee's health care coverage an equal amount to that which it makes on behalf of active employees.

The retired employee's spouse who is not yet Medicare eligible will be covered only if the employee provides signed verification that his/her spouse has no other medical coverage as an option. For purposes of this provision, Medicare is considered a medical coverage option for a retired employee's spouse.

Medicare eligible retirees, are not eligible to maintain coverage under JDL's existing medical benefit plan for employees and must enroll in Medicare. JDL will provide retired Medicare eligible employees, who qualify for retiree health care, with a bi-annual stipend to be deposited into an account established for the retiree through the MERS Health Care Savings Program.

These changes represent the Board's commitment to annual progress to obtain a fully funded status for its OPEB liabilities. The Library's Unfunded Actuarial Accrued Liability was reduced in 2017 by \$588,210 representing almost a 40% reduction in OPEB liabilities.

In 2017, the Library Board addressed our employee pensions. As more of our employees near retirement age, the Municipal Employees' Retirement System (our pension provider), will require the Library to increase its annual contribution in order to maintain benefits for current and future retirees. Based on our 2015 MERS Annual Valuation our pension plan was 90% funded, having fallen from the previous year due to changes in actuarial assumptions. In contrast with the GASB reporting standard that is applied to this year's financial picture, the funding level is listed at 84% funded in the 2016 report. To address the declining funding status, in 2017, the Library Board approved a contribution of \$728,046 to the retirement account to help address the shortfall and will continue to explore options to maintain a fully funded level in the future. Beginning in 2010, new full-time employees are now enrolled in a hybrid plan through MERS in order to minimize pension expenses.

2017 Highlights

In 2017 Jackson County residents checked out over 1.2 million items in print and digital formats. Digital downloads (e-books, audiobooks, music, etc.) now account for nearly 15% of all checkouts. At the same time, nearly 85% of all items checked out by Jackson County residents continue to come from traditional physical formats such as printed books, CDs, DVDs and magazines. It is evident that Jackson County residents enjoy visiting their neighborhood libraries, while also appreciating the convenience of downloading books, movies and music from our website 24/7/365. The library continues to draw large audiences to its programs and events for all age groups. Usage of the library's public computers and wireless connection continues to remain high. In 2017 over 2400 programs were held in the library for all ages with total attendance over 69,000 people.

Management's Discussion and Analysis

2017 Highlights (Continued)

The Youth Services staff launched 1,000 Books before Kindergarten, a literacy initiative to engage parents to read often with their young children. Community Forums continue to be a popular event to learn and engage the community in conversations about relevant community topics. Events during Spring Break Week and National Library Week entertained users of all ages. The library staff began library service enhancements in 2017 with the successful passage of the library millage in 2016. A new circulating collection of internet hotspots has been very successful to help bridge the digital divide in the community of Jackson.

Community engagement continues to be a focus of programming and services development. The library received a grant of \$150,000 for 2 years from the Library Services and Technology Act to develop programs for those suffering Alzheimer's and Dementia. More staff attended training on using the Harwood Practice to hold community conversations to learn from our community about what type of community they want and how can the community and library help move to that goal. Conversations will take place in 2018 and beyond.

Facilities upgrades this year included the replacement of the front parking lot at the Eastern Branch along with the installation of a new lighted sign and the beginning of the renovation of the upper level and balcony at the Concord Branch. The Carnegie Media Room also got a refresh as it is one of the busiest places in the library. Our Friends of the Library continue their support through book and bake sales; raising funds to support programs, services and facilities of all thirteen Library branches as well as helping at programs.

Budget Priorities for 2018

The library explored barriers to service for our community and will launch some policy changes that adjust the way materials are circulated to try to lessen barriers to access. Strategic goals through 2020 provide direction in developing new and expanded ways to promote lifelong learning, literacy, and supporting workforce and economic development.

The 2018 budget priorities include service and facility updates that would best serve the Jackson community. The Carnegie Library will have their elevator updated and at the Concord Branch, the upper level renovation will be completed. Options for other facility enhancements will be explored along with evaluation of library hours.

Requests for Information

This financial report is designed to provide a general overview of the revenues it receives for all those with an interest in the Library's finances. Questions concerning any of the information provided in this report should be addressed to the Director at 244 West Michigan Avenue, Jackson, Michigan 49201, phone 517-788-4099.

FINANCIAL STATEMENTS

JACKSON DISTRICT LIBRARY
STATEMENT OF NET POSITION
DECEMBER 31, 2017

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS:	
Cash and cash equivalents	\$ 3,518,015
Investments	20,855
Accounts receivable:	
Penal fines	109,677
Other	37,721
Prepaid expenses	1,449
Property taxes receivable	7,647,600
Capital assets, net	<u>5,254,570</u>
Total assets	<u>16,589,887</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension amounts	<u>230,520</u>
LIABILITIES:	
Accounts payable	337,643
Accrued liabilities	35,084
Accrued payroll	65,745
Unearned revenue:	
Grants	5,952
Shared computerization agreement	71,585
Total current liabilities	<u>516,009</u>
Noncurrent liabilities:	
Compensated absences	347,960
Net pension liability	188,638
Net other post employment benefit payable	76,657
Total long-term liabilities	<u>613,255</u>
DEFERRED INFLOWS OF RESOURCES:	
Deferred pension amounts	205,441
Property taxes	7,647,600
Total deferred inflows of resources	<u>7,853,041</u>
Total liabilities and deferred inflows of resources	<u>8,982,305</u>
NET POSITION:	
Invested in capital assets, net of related debt	5,254,570
Restricted	84,537
Unrestricted	<u>2,498,995</u>
Total net position	<u>\$ 7,838,102</u>

See accompanying notes.

JACKSON DISTRICT LIBRARY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

FUNCTION/PROGRAMS	PROGRAM REVENUES			GOVERNMENTAL
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	ACTIVITIES NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
General government	\$ 7,018,689	\$ 290,760	\$ 159,129	\$ -
GENERAL REVENUES:				
Property taxes				5,656,418
State shared revenues				104,818
Penal fines				701,201
Investment income				30,143
USF phone refunds				39,249
Other revenues				14,121
Total general revenues				<u>6,545,950</u>
Change in net position				(22,850)
Net position - beginning of year				<u>7,860,952</u>
Net position - end of year				<u>\$ 7,838,102</u>

See accompanying notes.

JACKSON DISTRICT LIBRARY
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2017

	<u>GOVERNMENTAL FUND</u>
ASSETS:	
Cash and cash equivalents	\$ 3,518,015
Investments	20,855
Accounts receivable:	
Penal fines	109,677
Other	37,721
Prepaid expenses	1,449
Property taxes receivable	<u>7,647,600</u>
Total assets	<u><u>\$ 11,335,317</u></u>
 LIABILITIES:	
Accounts payable	\$ 337,642
Accrued liabilities	35,084
Accrued payroll	65,745
Unearned revenue:	
Grants	5,952
Shared computerization agreement	<u>71,585</u>
Total liabilities	<u>516,008</u>
 DEFERRED INFLOWS OF RESOURCES:	
Property taxes	<u>7,647,600</u>
 FUND BALANCES:	
Restricted	96,549
Assigned	500,000
Unassigned	<u>2,575,160</u>
Total fund balance	<u>3,171,709</u>
Total liabilities, deferred inflows of resources and fund balance	<u><u>\$ 11,335,317</u></u>

See accompanying notes.

JACKSON DISTRICT LIBRARY
RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2017

TOTAL FUND BALANCE - GOVERNMENTAL FUND \$ 3,171,709

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 governmental fund balance sheet. Net of accumulated depreciation. 5,254,570

Compensated absences are long-term liabilities are not due and payable in the current period and therefore are not reported in governmental funds. (347,960)

Long-term liabilities for Other Post Employment Benefits (OPEB) obligations do not present a claim on current financial resources and are therefore not reported as fund liabilities. (76,657)

Certain pension amounts, such as the net pension liability and deferred amounts are not due and payable in the current period and therefore are not reported as fund liabilities. (163,560)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ 7,838,102

See accompanying notes.

JACKSON DISTRICT LIBRARY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>GOVERNMENTAL FUND</u>
REVENUES	
Property taxes	\$ 5,656,418
State shared revenues	104,818
Coop reimbursement	32,754
Fines and fees	103,268
Copier fees	44,441
Penal fines	701,201
Investment income	30,143
Contributions and grants	159,129
USF phone refunds	39,249
Shared services - JPS	59,528
Contractual - Financial stability coordinator	50,769
Other revenues	14,121
Total revenues	<u>6,995,839</u>
 EXPENDITURES	
Culture and recreation	<u>7,478,812</u>
 EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	 (482,973)
 FUND BALANCES, BEGINNING OF YEAR	 <u>3,654,682</u>
 FUND BALANCES, END OF YEAR	 <u><u>\$ 3,171,709</u></u>

See accompanying notes.

JACKSON DISTRICT LIBRARY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENT FUND \$ (482,973)

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report capital outlays as expenditures; in the
Statement of Activities, these costs are allocated over their
estimated useful lives as depreciation:

Capital outlays 849,617

Depreciation expense (1,018,274)

Decrease in non-current liability for compensated absences payable
is an expense in the statement of activities but is not an expenditure
in the governmental funds. 8,897

Change in net OPEB obligations are reported in the statement of
activities as these future benefits are earned; because they do not
require the use of current resources they are not reported in the
fund financial statements. 26,275

Changes in Net Pension Liability and related deferred amounts
do not require the use of current resources and are not reported
in the fund financial statements. 593,608

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (22,850)

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

JACKSON DISTRICT LIBRARY
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**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

The Jackson District Library (the “Library”) was formed January 1, 1978, from a consolidation of the City of Jackson and County of Jackson Library systems. The Library is governed by an appointed board of trustees with seven members.

B. GOVERNMENT WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the statement of net position and statement of activities) report information on all of the nonfiduciary activities of the Library.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to users or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Library reports the following major governmental fund:

General Fund

The General Fund is the general operating fund of the Library. It is used to account for all financial resources.

D: ASSETS, LIABILITIES, AND NET POSITION

Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Restricted assets consist of cash and investments that have been restricted by the donor at the date of the gift.

A joint venture exists between the Jackson District Library and Jackson College to operate and maintain an automated library system to be shared between the two parties. Cash received from Jackson College is restricted for the maintenance and operation of the system.

Capital Assets

Capital assets, which include books and related materials, property and equipment are defined by the Library as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. (Computers or property and equipment purchased in groups are combined for the purpose of the capital threshold amount.)

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D: ASSETS, LIABILITIES, AND NET POSITION (Continued)

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.

Compensated Absences

It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the Statement of Net Position.

Long-term Obligations

Long-term obligations (due more than one year from the balance sheet date) are reported as liabilities in the Statement of Net Position.

Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of financial position will sometimes report a separate section for deferred outflows/inflows of resources. This separate financial statement element, represents a consumption of net position that applies to a future period(s) and is not recognized as an outflow/inflow of resources until then.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Fund Equity

In the fund financial statements, governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the Library Board. A formal resolution of the Board is required to establish, modify, or rescind a fund balance commitment. The Library reports assigned fund balance for amounts that are constrained by the government's intent to be used for specific purposes but are neither restricted nor committed. Unassigned fund balance is the residual classification for the general fund.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

E: ESTIMATES

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

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the governmental fund. The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is at the line item.

Encumbrance accounting is employed in the government fund. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents, and investments of the Library can be defined as follows:

Cash and cash equivalents consist of cash on hand, deposits (checking accounts), and investments with an original maturity no greater than 90 days. Deposits are in one local bank with accounts in its name. Surplus funds are invested in accordance with state law and Board resolutions. Authorized investments include:

- (1) Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States;
- (2) Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States;
- (3) Commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services, and that matures not more than 270 days from the purchased date;
- (4) Repurchase agreements consisting of instruments listed in subdivision (1) above;
- (5) Bankers' acceptances of United States banks;
- (6) Mutual funds registered under the Investment Company Act of 1940, and with authority to purchase only investment vehicles that are legal for direct investment by a public corporation;

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

- (7) Obligations described in (1) through (6) as named above are purchased through an interlocal agreement under the Urban Cooperation Act of 1967;
- (8) Investment pools organized under the Surplus Funds Investment Act 367 of 1982;
- (9) Investment pools organized under the Local Government Investment Pool Act 121 of 1985.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the Library's cash deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>
Imprest cash	\$ 613
Insured (FDIC)	3,258,820
Uninsured	<u>258,582</u>
 Total cash and cash equivalents	 <u><u>\$ 3,518,015</u></u>

The Library's deposits are in accordance with statutory authority.

The Library's investments are categorized below to give an indication of the level of risk assumed by the Library. Risk category 1 includes those investments that meet any one of the following criteria: insured, registered, or held by the Library or its agent. Risk categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Library's name. Category 3 includes investments held by the counterparty or the counterparty's trust department (or agent) but not in the Library's name.

<u>Investment Type</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total</u>	<u>Cost</u>
Corporate equities	<u>\$ -</u>	<u>\$ 20,855</u>	<u>\$ -</u>	<u>\$ 20,855</u>	<u>\$ 13,250</u>

The corporate equities represent mutual funds donated directly to the Jackson District Library.

Investment and Deposit Risk

Interest Rate Risk: State law limits the allowable investments and the maturities of some of the investments. The Library's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Credit Risk: State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, banker's acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. State law does not require, and the Library does not have, a policy for custodial credit risk.

Concentration of Credit Risk: State law permits allowable investments but does not limit concentration of credit risk.

NOTE 4: PROPERTY TAXES

Property tax revenues shown in the General Fund reflect the 2016 District levy of 1.2593 mills on the assessed valuation of property located in the county as of the preceding December 31st. Assessed values are established annually by the county and are equalized by the state at an estimated 50% of current market value.

The 2016 levy covers the Library's fiscal year of January 1, 2017 to December 31, 2017. The 2016 tax levy became a lien on properties on December 1, 2016 and was substantially collected in early 2017. Taxes became delinquent on March 1, 2017. Taxes receivable the subsequent year, as presented in the Library's financial statements, represent the next accounting period's uncollected taxes. Unearned taxes represent the subsequent years' taxes, both collected and uncollected, that are unearned. These amounts are reported as such because the tax bills were issued December 1, 2017, for the 2018 fiscal year revenue.

NOTE 5: CAPITAL ASSETS

Capital assets, which include property, equipment and books and related materials, are depreciated using the straight-line method over the following useful lives:

Books (including E-Books)	3 to 10 years
Audio Visual	3 years
Circulating Software	3 years
Computer Equipment	5 to 7 years
Equipment	5 to 10 years
Buildings	40 years
Building Improvements	15 to 30 years

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5: CAPITAL ASSETS (Continued)

Capital asset activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets Being Depreciated:				
Land	\$ 275,900	\$ -	\$ -	\$ 275,900
Buildings	2,788,335	-	-	2,788,335
Building Improvements	904,883	71,413	-	976,296
Books	1,966,826	319,407	351,001	1,935,232
E-Books	558,012	138,913	-	696,925
Audio Visual	1,292,812	193,368	405,496	1,080,684
Circulating Software	217,838	44,863	67,680	195,021
Computer Equipment	396,305	81,653	7,830	470,128
Equipment	526,349	-	-	526,349
Subtotal	<u>8,927,260</u>	<u>849,617</u>	<u>832,007</u>	<u>8,944,870</u>
Less Accumulated Depreciation for:				
Land	-	-	-	-
Buildings	287,432	68,485	-	355,917
Building Improvements	238,000	49,158	-	287,158
Books	1,164,884	322,849	351,001	1,136,732
E-Books (Amortization)	298,686	122,273	-	420,959
Audio Visual	856,641	278,361	405,496	729,506
Circulating Software	146,002	48,419	67,680	126,741
Computer Equipment	272,498	72,266	7,830	336,934
Equipment	239,890	56,463	-	296,353
Subtotal	<u>3,504,033</u>	<u>1,018,274</u>	<u>832,007</u>	<u>3,690,300</u>
Net Capital Assets Being Depreciated	<u><u>\$ 5,423,227</u></u>	<u><u>\$ (168,657)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,254,570</u></u>

Under GASB 34 the Library was not required to retroactively report fixed assets. Accordingly, the Library chose not to retroactively report fixed assets prior to the year ending December 31, 2003.

NOTE 6: COMPENSATED ABSENCES

Full-time District employees earn vacation and sick leave in accordance with the Library's personnel policies. After one year, all employees are entitled to vacation earned based on length of service, and a maximum of one week may be carried over to the following year. All employees earn sick leave at varying rates.

Upon termination, 50% of accumulated sick leave benefits up to a maximum of 90 work days will be paid by the Library after 5 years of service.

Unpaid leave at December 31, 2017, which is not liquidated within the current operating cycle, has been reported in the governmental activities.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7: DEFINED BENEFIT PENSION PLAN

Plan Description

The Library'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.

Benefits Provided:

<u>01-General: Closed to new hires, linked to Division HA</u>	
	<u>2016 Valuation</u>
Benefit Multiplier	2.00% Multiplier(no max)
Normal Retirement Age	60
Vesting	6 years
Early Retirement (Unreduced)	-
Early Retirement (Reduced)	50/25 55/15
Final Average Compensation	5 years
COLA for Future Retirees	2.50% (non-compound)
Employee Contributions	4%
Act 88	Yes (adopted 4/8/1999)
<u>HA - General hired after 7/1/2010: Open Division, lined to Division 01</u>	
	<u>2016 Valuation</u>
Benefit Multiplier	Hybrid Plan - 1.00% Multiplier
Normal Retirement Age	60
Vesting	6 years
Early Retirement (Unreduced)	-
Early Retirement (Reduced)	-
Final Average Compensation	3 years
Employee Contributions	0%
Act 88	Yes (adopted 7/1/2010)

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

Employees covered by benefit terms. At the December 31, 2016 valuation date, the following employees were covered by the benefit terms:

Active employees	35
Vested former employees	8
Retirees and beneficiaries	<u>32</u>
	<u>75</u>

Contributions

The Library 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.

Employer contributions for the year ended December 31, 2017 were \$859,355.

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: 3%-4%

Salary Increases: 4.5% in the long-term

Investment rate of return: 7.75%, net of investment expense, including inflation.

Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on the Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study in 2015.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7: 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
Global Equity	55.50%
Global Fixed Income	18.50%
Real Assets	13.50%
Diversifying Strategies	12.50%

Discount rate

The discount rate used to measure the total pension liability is 8.0%. 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

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances at 12/31/16	\$ 7,668,158	\$ 6,460,419	\$ 1,207,739
Changes for the Year			
Service Cost	142,933	-	142,933
Interest on Total Pension Liability	604,426	-	604,426
Changes in benefits	-	-	-
Difference between expected and actual experience	63,294	-	63,294
Changes in assumptions	-	-	-
Employer Contributions	-	859,355	(859,355)
Employee Contributions	-	40,280	(40,280)
Net investment income	-	925,106	(925,106)
Benefit payments, including employee refunds	(368,594)	(368,594)	-
Administrative expense (negative number)	-	(14,570)	14,570
Other changes	(19,583)	-	(19,583)
Net changes	422,476	1,441,577	(1,019,101)
Balances as of 12/31/17	\$ 8,090,634	\$ 7,901,996	\$ 188,638

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7: 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 8.0% as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.0%) or 1% higher (9.0%) than the current rate.

	1% Decrease 7.00%	Current Discount Rate (8.0%)	1% Increase 9.00%
Change in Net Pension Liability (NPL)	\$ 840,974		\$ (721,005)

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB 68 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 December 31, 2017 the employer recognized pension expense of \$265,747. 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	\$ -	\$ 14,002
Differences in assumptions	230,520	-
Excess (Deficit) Investment Returns	-	191,439
Contributions subsequent to the measurement date	-	-
Total	\$ 230,520	\$ 205,441

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 December 31, 2017.

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

Year Ended	
2018	101,172
2019	101,172
2020	(99,743)
2021	(77,522)

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 8: JOINT VENTURE

The Library entered into a joint venture with Jackson College on September 25, 1991, to acquire, install, operate, and maintain an automated library system to be shared between the parties. The initial system cost, future additions, upgrades and maintenance are shared by Jackson District Library and Jackson College at a 2/3 - 1/3 ratio, respectively. The Library has recognized the College's unspent contribution as unearned revenues in the Statement of Net Position.

NOTE 9: RESERVED FUND BALANCE/RESTRICTED NET POSITION

The amounts reported in the Statement of Net Position identified as restricted net position are comprised of the following:

Restricted for shared computerization agreement	\$	71,585
Restricted for grant agreement		5,952
Restricted for donor imposed restrictions		7,000
Total Restricted Net Position	\$	<u>84,537</u>

The amounts reported in the Governmental Funds Balance Sheet as restricted and assigned fund balance are comprised of the following:

Restricted for:		
Donor imposed	\$	7,000
Grantor imposed		5,952
Shared computerization agreement		71,585
Encumbrances		12,012
Total restricted	\$	<u>96,549</u>
Assigned for:		
Technology	\$	<u>500,000</u>

NOTE 10: RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance to manage these risks.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 11: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The Jackson District Library provides health insurance benefits for its retired employees and their beneficiaries through a trust established with the Municipal Employees' Retirement System of Michigan (MERS). The Library has no obligation to make contributions in advance of when the insurance premiums are due (in other words, this obligation can be financed on a "pay-as-you-go" basis). The Library has, however, made contributions to MERS (established pursuant to Public Act 199 of 1999) in an effort to advance fund these benefits.

For the year ended December 31, 2017, the Library has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2017. The valuation computes an annual required contribution (ARC), which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortized any unfunded actuarial liabilities over a period not to exceed thirty years. The valuation's computed contribution and the actual 2017 funding are summarized in the following:

Annual required contribution (recommended)	\$ 76,725
Amount contributed:	
Funding	<u>103,000</u>
Decrease in net OPEB obligation	(26,275)
Prior unfunded liability	<u>102,932</u>
Unfunded liability at December 31, 2017	<u><u>\$ 76,657</u></u>

The funding progress of the Plan as of the most recent valuation date is as follows:

Actuarial accrued liability as of December 31, 2017:	
Liability at December 31, 2016	\$ 1,509,650
Service cost	7,640
Interest cost	104,578
Net benefits paid to employer	<u>(181,649)</u>
Liability at December 31, 2017	1,440,219
Actuarial value of assets	<u>504,609</u>
Unfunded actuarial liability at December 31, 2017	<u><u>\$ 935,610</u></u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funding status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 11: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS
(Continued)

Projections for benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2017 actuarial valuation, the actuarial assumptions include the following:

Discount rate used for liability determination	5.50%
Long-Term expected rate of return on General Funds	4.00%
Long-Term expected rate of return on MERS RHFV	7.00%

Eligibility Requirements:

Age 60 with 12 or more years of continuous service.

Pre-65 Fully-insured

Post-65 N/A

Pre-65 retirees pay 20% of the fully-insured premiums.

Post-65 benefits were eliminated and a stipend is provided.

NOTE 12: SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 4, 2018, the date on which the financial statements were available to be issued.

NOTE 13: CHANGES IN ACCOUNTING STANDARDS

The Governmental Accounting Standards Board (GASB) has issued Statement 75 effective June 15, 2018 requiring employers that provide other postemployment benefits (OPEB) to recognize a net OPEB liability on their statements of net position. It mirrors GASB 68 presentation for pension benefits.

REQUIRED SUPPLEMENTARY INFORMATION

JACKSON DISTRICT LIBRARY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Revenue				
Property taxes	\$ 5,397,212	\$ 5,660,000	\$ 5,656,418	\$ (3,582)
State shared revenues	104,094	104,818	104,818	-
Coop Reimbursement	31,241	32,754	32,754	-
Fines and fees	110,000	110,000	103,268	(6,732)
Copier fees	40,000	45,000	44,441	(559)
Penal fines	750,000	720,000	701,201	(18,799)
Investment income	20,000	30,001	30,143	142
Contributions and grants	39,500	154,172	159,129	4,957
USF Phone refunds	15,000	39,249	39,249	-
Shared services - JPS	65,000	65,000	59,528	(5,472)
Contractual - Financial stability coordinator	65,000	65,000	50,769	(14,231)
Other revenues	10,200	15,031	14,121	(910)
Total Revenues	6,647,247	7,041,025	6,995,839	(45,186)
Expenditures				
Salaries and wages	3,500,000	3,500,000	3,357,741	142,259
Board per diem	3,000	3,000	2,760	240
Social security	267,750	267,750	248,957	18,793
Retirement	169,716	897,762	870,509	27,253
Health insurance	398,565	398,565	326,960	71,605
Retiree health care	130,000	130,000	129,899	101
Life insurance	8,000	8,000	6,417	1,583
Unemployment	3,000	-	-	-
Director's conferences	4,000	4,000	2,947	1,053
Postage	25,000	25,000	19,607	5,393
Office supplies	23,000	23,509	23,509	-
Printing/promotions/publicity	100,000	105,000	103,269	1,731
Technical processing supplies	18,000	30,000	26,796	3,204
Contracted services:				
Professional	95,000	95,000	87,295	7,705
Office equipment	25,000	35,000	34,194	806
Building/grounds	162,500	167,108	166,250	858
Software/upgrades	65,000	65,000	58,886	6,114
Circulation	56,000	56,000	55,069	931
Other	34,000	34,218	31,038	3,180
Online computer library catalog	30,000	30,000	20,836	9,164
Shared computerization maintenance	65,000	65,000	63,421	1,579
Building and maintenance supply	30,000	32,500	30,427	2,073
Gifts and memorial materials	15,000	40,000	32,841	7,159
Staff development	35,000	37,104	37,104	-
Indirect State aid	52,047	52,409	52,409	-
Professional memberships and dues	8,000	10,000	8,546	1,454
Subtotal	5,322,578	6,111,925	5,797,687	314,238

JACKSON DISTRICT LIBRARY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Expenditures (Continued)	5,322,578	6,111,925	5,797,687	314,238
Interloan	2,000	2,000	1,244	756
Telephone	50,000	50,000	47,574	2,426
Internet access lines	30,000	30,000	20,793	9,207
Transportation-Fuel	6,000	6,713	6,653	60
Mileage reimbursement	15,000	15,000	13,628	1,372
Library programs:				
Adult programs	40,000	40,000	37,166	2,834
Children's programs	100,000	102,000	81,765	20,235
Bindery	1,000	1,000	920	80
Insurance and bonds	48,000	48,000	42,336	5,664
Utilities	135,000	135,000	123,561	11,439
Vehicle repairs and maintenance	4,000	4,937	4,937	-
Miscellaneous	5,000	-	-	-
Word wise	5,000	-	-	-
Staff recognition	5,000	5,000	3,678	1,322
Property tax refunds	15,000	15,000	5,623	9,377
Grant Projects	10,000	35,553	35,553	-
Books:				
Hardbound/Trade	325,600	331,600	319,407	12,193
Paperback	9,600	9,600	7,355	2,245
Reference	2,650	2,650	2,112	538
Periodicals	32,300	32,300	28,298	4,002
Audio-visual	230,750	230,750	193,368	37,382
Online databases	352,600	392,492	392,492	-
Electronic software	45,000	45,000	44,863	137
Building repairs and maintenance	100,000	100,000	75,968	24,032
Computer supplies	1,500	24,081	22,311	1,770
Branch furniture and fixtures	30,000	25,000	16,454	8,546
Strategic Initiatives	5,000	-	-	-
Capital outlay:				
Computers/Software	80,000	82,000	81,653	347
Buildings	120,000	120,000	71,413	48,587
Total Expenditures	7,128,578	7,997,601	7,478,812	518,789
Net Change in Fund Balances	(481,331)	(956,576)	(482,973)	473,603
Fund Balance, beginning of year	3,654,682	3,654,682	3,654,682	-
Fund Balance, end of year	\$ 3,173,351	\$ 2,698,106	\$ 3,171,709	\$ 473,603

Jackson District Library
Schedule of Changes in the Employer's Net Pension Liability and Related Ratios
Last 10 Fiscal Years

	2015	2016	2017
Total Pension Liability			
Service Cost	\$ 175,359	\$ 149,044	\$ 142,933
Interest	522,380	569,594	604,426
Changes of Benefit Terms	-	-	-
Difference between expected and actual experience	-	(122,945)	63,294
Changes of assumptions	-	461,040	-
Benefit payments including employee refunds	(303,144)	(330,200)	(368,594)
Other	6,514	(53,125)	(19,583)
Net Change in Total Pension Liability	<u>401,109</u>	<u>673,408</u>	<u>422,476</u>
Total Pension Liability beginning	<u>6,593,641</u>	<u>6,994,750</u>	<u>7,668,158</u>
Total Pension Liability ending	<u><u>\$6,994,750</u></u>	<u><u>\$ 7,668,158</u></u>	<u><u>\$8,090,634</u></u>
 Plan Fiduciary Net Position			
Contributions-employer	\$ 110,088	\$ 136,064	\$ 859,355
Contributions-employee	55,936	46,145	40,280
Net Investment income	(92,710)	674,229	925,106
Benefit payments including employee refunds	(303,144)	(330,200)	(368,594)
Administrative expense	(13,534)	(13,309)	(14,570)
Net Change in Plan Fiduciary Net Position	<u>(243,364)</u>	<u>512,929</u>	<u>1,441,577</u>
Plan Fiduciary Net Position beginning	<u>6,190,855</u>	<u>5,947,490</u>	<u>6,460,419</u>
Plan Fiduciary Net Position ending	<u><u>\$5,947,491</u></u>	<u><u>\$ 6,460,419</u></u>	<u><u>\$7,901,996</u></u>
 Employer Net Pension Liability	 <u><u>\$1,047,259</u></u>	 <u><u>\$ 1,207,739</u></u>	 <u><u>\$ 188,638</u></u>
 Plan Fiduciary Net Position as a percentage of the Total Pension Liability	 85%	 84%	 98%
 Covered Employee Payroll (from GASB 68 actuarial page)	 \$1,789,781	 \$ 1,582,579	 \$1,628,733
Employer's Net Pension Liability as a percentage of covered employee payroll	59%	76%	12%

This schedule is presented to illustrate the requirement to show information for 10 years, However, until a full 10 year trend is compiled, reporting is presented for those years which the information is available.

Jackson District Library
Schedule of Employer's Contributions
Last 10 Fiscal Years

	2015	2016	2017
Actuarial Determined Contributions	\$ 110,088	\$ 136,064	\$ 131,309
Contributions in relation to the actuarially determined contribution	110,088	136,064	859,355
Contribution deficiency (excess)	\$ -	\$ -	\$ (728,046)
 Covered Employee Payroll	 \$ 1,789,781	 \$ 1,582,579	 \$ 1,628,733
 Contributions as a percentage of covered employee payroll	 6%	 9%	 53%

Notes to Schedule

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	25 years
Asset valuation method	5 year smoothed
Inflation	3.5%
Salary Increases	4.5%
Investment rate of return	7.75%
Retirement age	Varies depending on plan adoption
Mortality	50% Female/50% Male 1994 Group Annuity Mortality Table

This schedule is presented to illustrate the requirement to show information for 10 years, However, until a full 10 year trend is compiled, reporting is presented for those years which the information is available.

ADDITIONAL INFORMATION

JACKSON DISTRICT LIBRARY
STATEMENT OF ACTIVITIES - DETAIL
FOR THE YEAR ENDED DECEMBER 31, 2017

EXPENSES:

Salaries and wages	\$ 3,348,844
Board per diem	2,760
Social security	248,957
Retirement	276,901
Health insurance	326,960
Retiree health care contribution	103,624
Life insurance	6,417
Director's conferences	2,947
Postage	19,607
Office supplies	23,509
Printing/promotions/publicity	103,269
Technical processing supplies	26,796
Contracted services:	
Professional	87,295
Office equipment	34,194
Building/grounds	166,250
Software/upgrades	58,886
Circulation	55,069
Other	31,038
Online computer library catalog	20,836
Shared computerization agreement	63,421
Building and maintenance supply	30,427
Gifts and memorial materials	32,841
Staff development	37,104
Professional memberships and dues	8,546
Indirect State aid	52,409
Interloan	1,244
Telephone	47,574
Internet access lines	20,793
Transportation-Fuel	6,653
Mileage reimbursement	13,628
Library programs:	
Adult	37,166
Children's	81,765
Bindery	920
Insurance and bonds	42,336
Utilities	123,561
Vehicle repairs and maintenance	4,937
Subtotal	5,549,484

JACKSON DISTRICT LIBRARY
STATEMENT OF ACTIVITIES - DETAIL
FOR THE YEAR ENDED DECEMBER 31, 2017

EXPENSES: (Continued)

Staff recognition	3,678
Property tax refunds	5,623
Grant Projects	35,553
Paperback books	7,355
Reference materials	2,112
Periodicals	28,298
Online databases	253,579
Building repairs and maintenance	75,968
Computer supplies	22,311
Branch furniture and fixtures	16,454
Depreciation	1,018,274
Total expenditures	<u>7,018,689</u>

REVENUE:

Property taxes	5,656,418
State shared revenues	104,818
Coop reimbursement	32,754
Fines and fees	103,268
Copier fees	44,441
Penal fines	701,201
Investment income	30,143
Contributions and grants	159,129
USF Phone refunds	39,249
Shared services	59,528
Contractual-Financial stability coordinator	50,769
Other revenues	14,121
Total revenues	<u>6,995,839</u>

Excess of Revenues Over (Under) Expenditures (22,850)

Net Position - Beginning, as Restated 7,860,952

Net Position - Ending \$ 7,838,102

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FOUNDING PARTNER:

K. LAVERNE MARKOWSKI, C.P.A. (1961-2006)

MEMBERS:

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MICHIGAN ASSOCIATION OF
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AICPA GOVERNMENTAL AUDIT
QUALITY CENTER

Board of Trustees
Jackson District Library
Jackson County, Michigan

In planning and performing our audit of the financial statements of the governmental activities of the **Jackson District Library** as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered Jackson District Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Jackson District Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Jackson District Library'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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed in the attached *Schedule of Findings and Responses*, 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 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 deficiencies listed in the *Schedule of Findings and Responses* in Jackson District Library's internal control to be significant deficiencies.

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

Markowski & Company, CPAs

Markowski & Company, CPAs
May 4, 2018

JACKSON DISTRICT LIBRARY
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2017

Findings considered a significant deficiency

Criteria

Statement on Auditing Standards No. 115 titled *Communicating Internal Control Related Matters Identified in an Audit* requires us to communicate in writing, to management and those charged with governance, significant deficiencies and material weaknesses identified in an audit.

Condition 2017 – 1

Because of the limited size of the Library's accounting staff, proper segregation of duties cannot be accomplished.

Cause

The Library has a lack of staff allowing for separation of duties.

Effect

The Library has staff performing conflicting internal control duties (such as preparing cash disbursements and reconciling the bank).

Recommendation

Library's management needs to continue to exercise oversight to help compensate for the lack of staff.

Library's Response

We are aware of this deficiency; management and the board will continue to exercise oversight to reduce the risks associated with the lack of staff size.

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AICPA GOVERNMENTAL AUDIT
QUALITY CENTER

Board of Trustees
Jackson District Library
Jackson County, Michigan

We have audited the general purpose financial statements of the Jackson District Library for the year ended December 31, 2017 and have issued our report thereon dated May 4, 2018. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated April 19, 2018, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the general purpose financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Jackson District Library. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Jackson District Library are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Significant Audit Findings (Continued)

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 financial statements were property taxes receivable/deferred property taxes and the depreciable lives of the capital assets.

We evaluated the calculation of the property taxes receivable and the lives of each of the assets to determine that they are being expensed over the proper period of time.

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 trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We proposed a few audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Jackson District Library's reporting process.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 4, 2018.

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 governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

This information is intended solely for the use of the Board of Trustees and management of the Jackson District Library and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Markowski & Company, CPAs

MARKOWSKI & COMPANY, CPAs
May 4, 2018