

**PIONEERLAND LIBRARY SYSTEM
WILLMAR, MINNESOTA**

**FINANCIAL STATEMENTS
December 31, 2015**

WESTBERG EISCHENS, PLLP
Certified Public Accountants
Willmar, Minnesota 56201

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pioneerland Library System
Willmar, Minnesota

We have audited the accompanying financial statements of the governmental activities and general fund of the Pioneerland Library System, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Library'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 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and general fund of the Pioneerland Library System, as of December 31, 2015, 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.

Change in Accounting Principle

As discussed in Note 10 to the financial statements, for the year ended December 31, 2015, Pioneerland Library System adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of proportionate share of net pension liability and employer contributions on pages 3 through 8 and 26 through 27 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic 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 preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2016 on our consideration of Pioneerland Library System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance the *Government Auditing Standards* in considering Pioneerland Library System's internal control over financial reporting and compliance.

Westberg Eischens, PLLP

Westberg Eischens, PLLP
Willmar, Minnesota
April 4, 2016

PIONEERLAND LIBRARY SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended December 31, 2015

**PIONEERLAND LIBRARY SYSTEM'S (PLS)
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Prepared by Laurie Ortega, Executive Director of Library Operations

INTRODUCTION

The Pioneerland Library System (the Library) is a regional public library system (Minn. Stat. 134.001 Subd.4) organized under the provisions of Minnesota's Chapters 134.001 and 317A. and Section 471.59. The Library provides the region's 165,000 residents free access to the resources of 32 libraries in nine West Central Minnesota counties.

Under a joint powers agreement, 9 counties and 18 cities appoint 35 members to the Library's board. This board is responsible for the operations, personnel and budgets for the 32 member libraries within a nine county region.

The Library presents this discussion and analysis of its financial performance during the fiscal year ended December 31, 2015, to assist the reader in focusing on significant financial issues and concerns. This discussion and analysis is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*, issued June 1999.

The Library's December 31, 2015, annual financial report consists of two parts – the management's discussion and analysis and the basic financial statements (which include notes to those financial statements).

Financial Highlights

Under GASB 34, the Regional Library's single government activities financial statement for December 31, 2015, report on all of the Library's assets, liabilities, revenues, expenses and net position under the programs it administers. In summary, the Library's financial highlights include the following:

- Total assets of the Library were approximately \$6.28 million at December 31, 2015. Total liabilities of the Library were approximately \$2.19 million at December 31, 2015. Thus, total net position was approximately \$4.13 million at December 31, 2015.
- Total revenue increased by approximately \$1.49 million during the year ended December 31, 2015. Total revenues were approximately \$6.91 million for the year ended December 31, 2015.
- Total expenses increased by approximately \$1.11 million during the year ended December 31, 2015. Total expenses were approximately \$6.68 million for the year ended December 31, 2015.
- Net position decreased by approximately \$1.30 million for the year ended December 31, 2015.

Library Financial Statements

The Library's mission is to "...improve library and information services...through joint efforts that allow libraries within the region to share resources and for users to have access to all of the public libraries' resources within the region. By joining together, greater efficiency and economy are obtained because of the larger tax base, reduced duplication of administrative services and the larger units of scale for operations." Source: *Comparison Fact Sheet for Minnesota's Regional Public Library Systems and Multicounty Multitype Library Cooperation Systems. August, 2004*".

**PIONEERLAND LIBRARY SYSTEM'S (PLS)
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Library Financial Statements

Under its Joint Powers Agreement (January 18, 2001), the Library's signatories of nine counties and 17 cities (18th city, Canby joined in 2003) established a new political subdivision that is a joint powers entity governed by a joint powers board of 35 members.

In view of this mission and its legal establishment, the Library's financial reporting objective under GASB 34 focuses on the financial activities of the Library as a whole.

Financial Statements

The Library is presenting its discussion and analysis based on the financial results of its programs in two basic financial statements – the statement of net position and the statement of activities. The statement of net position (similar to a balance sheet) reports all financial and capital assets of the Library and is presented in a format where assets equal liabilities plus net position. Net position is broken down into the following categories:

- *Net investment in capital assets* - consists of all capital assets net of accumulated depreciation and reduced by the outstanding balances of the capital assets' related debt.
- *Restricted net position* - consists of assets which uses are restricted by donor, grantors or other legally binding obligations.
- *Unrestricted net position* - consists of net position that do not meet the definition of net investment in capital assets or restricted net position.

The statement of activities (similar to an income statement) includes operating revenues, such operating expenses, administrative, and depreciation. The statement's focus is the change in net position (similar to net income or loss).

These financial statements utilize the economic resources measurement focus and the accrual basis of accounting. They report the Library's net position and changes in net position in full compliance with GASB 34. Under the accrual basis of accounting, revenues are recognized in the period they are received and expenses in the period when they are incurred and posted.

This entity-wide presentation represents several programs and activities. These programs are financed by city and county funds, state and federal grants, and other (charges and fees).

**PIONEERLAND LIBRARY SYSTEM'S (PLS)
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Net Position

Table I reflects the Library's condensed summary of the statement of net position as of December 31, 2015, with comparative amounts for 2014.

**Table I
Summary of Statement of Net Position
As of December 31**

<u>Description</u>	<u>2015</u>	<u>2014</u>	<u>Change</u>
Current and other assets	\$ 5,629,893	\$ 5,231,239	\$ 398,654
Capital assets, net	647,373	763,706	(116,333)
Total assets	<u>6,277,266</u>	<u>5,994,945</u>	<u>282,321</u>
Deferred outflows related to pension	234,506	-	234,506
Total deferred outflows of resources	<u>234,506</u>	<u>-</u>	<u>234,506</u>
Current liabilities	361,279	559,767	(198,488)
Long-term liabilities	1,830,192	-	1,830,192
Total liabilities	<u>2,191,471</u>	<u>559,767</u>	<u>1,631,704</u>
Deferred inflows related to pension	114,932	-	114,932
Total deferred inflows of resources	<u>114,932</u>	<u>-</u>	<u>114,932</u>
Net position			
Net investment in capital assets	647,373	763,706	(116,333)
Restricted net position	716,313	655,760	60,553
Unrestricted net position	<u>2,841,683</u>	<u>4,015,712</u>	<u>(1,174,029)</u>
Total net position	<u>\$ 4,205,369</u>	<u>\$ 5,435,178</u>	<u>\$(1,229,809)</u>

The decrease in net position is primarily due to the impact of implementing GASB 68. Refer to note 10 of the financial statements.

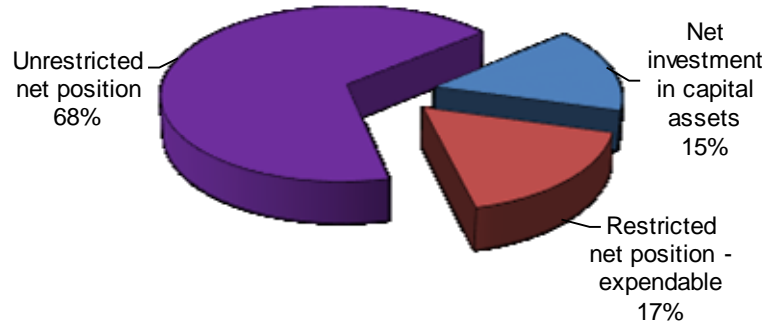
Investments in capital assets comprise about 10% of the Library's total assets and about 16% of the total net position.

The Library's net position also consists of assets restricted by donors, grants or other agreements. The restricted net position consists of expendable net position in which uses have been restricted, and endowments in which the net position earnings are expendable as designated by the donor while the principle of the net position is permanently held. Unrestricted net position includes cash, receivables, and other assets, less all other liabilities not previously applied. The following graph illustrates the relative percentage of the Library's net position for net investment in capital assets, restricted net position and unrestricted net position:

**PIONEERLAND LIBRARY SYSTEM'S (PLS)
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Net Position (continued)

Library's Net Position as of December 31, 2015



Statement of Activities

The results of the Library's operations are reported in the statement of activities. Table II presents a condensed summary of data from the Library's statements of activities.

**Table II
Summary of Statement of Activities
Years Ended December 31**

	<u>2015</u>	<u>2014</u>	<u>Change</u>
Revenues:			
Program revenues			
Intergovernmental	\$ 3,786,042	\$ 3,726,006	\$ 60,036
Grants	2,797,607	1,411,265	1,386,342
Charges for services	79,047	82,033	(2,986)
Gifts	32,453	34,692	(2,239)
General revenues			
Interest income	53,087	55,920	(2,833)
Market gain (loss) on investments - net	(19,940)	7,671	(27,611)
Other income	177,432	99,087	78,345
Total revenues	<u>6,905,728</u>	<u>5,416,674</u>	<u>1,489,054</u>
Expenses:			
Program expenses			
Salaries including related taxes & benefits	2,670,319	2,453,721	216,598
Grant expenditures	2,711,314	1,888,503	822,811
Books, periodicals & videos	402,073	387,264	14,809
Depreciation	201,273	198,659	2,614
Other	619,940	641,367	(21,427)
Total expenses	<u>6,604,919</u>	<u>5,569,514</u>	<u>1,035,405</u>
Increase (Decrease) in net position	300,809	(152,840)	453,649
Net position January 1, as previously stated	5,435,178	5,588,018	
Prior period adjustment	(1,530,618)	-	
Net position January 1, as restated	<u>3,904,560</u>	<u>5,588,018</u>	<u>(1,683,458)</u>
Net position December 31	<u>\$ 4,205,369</u>	<u>\$ 5,435,178</u>	<u>\$(1,229,809)</u>

**PIONEERLAND LIBRARY SYSTEM'S (PLS)
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Statement of Activities (continued)

Salaries and related expenses increased in part due to the implementation of GASB 68.

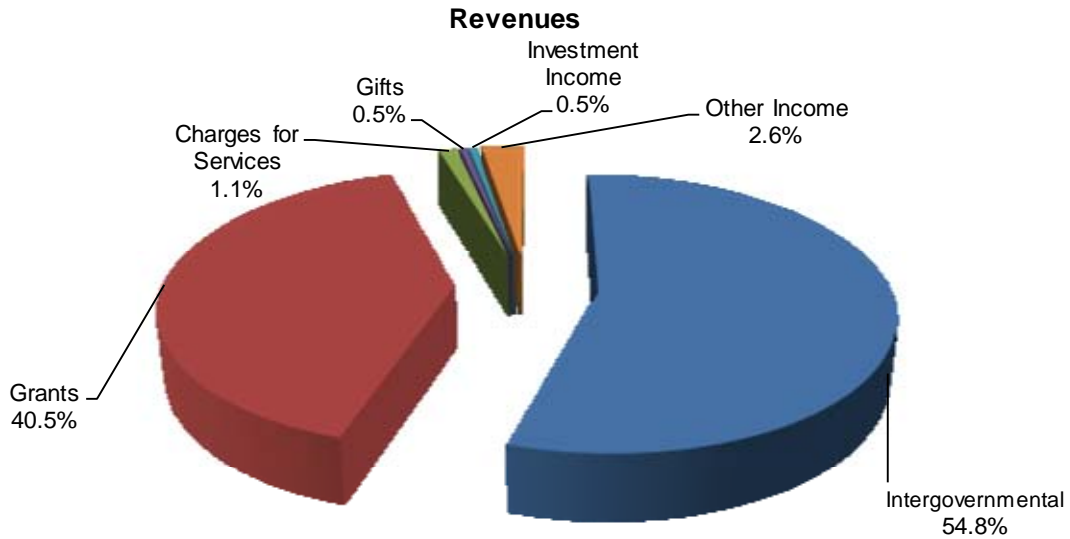
Grant revenues increased by \$1,386,342 due to additional e-rate dollars collected based on the large increase in Telecom expense. Other income items remained consistent with prior year noting market activity produced a loss.

Grant expenditures increased by \$822,811 due to additional fees associated with the Telecom plan. Salaries, depreciation, and other expense items are consistent with prior year and budgets.

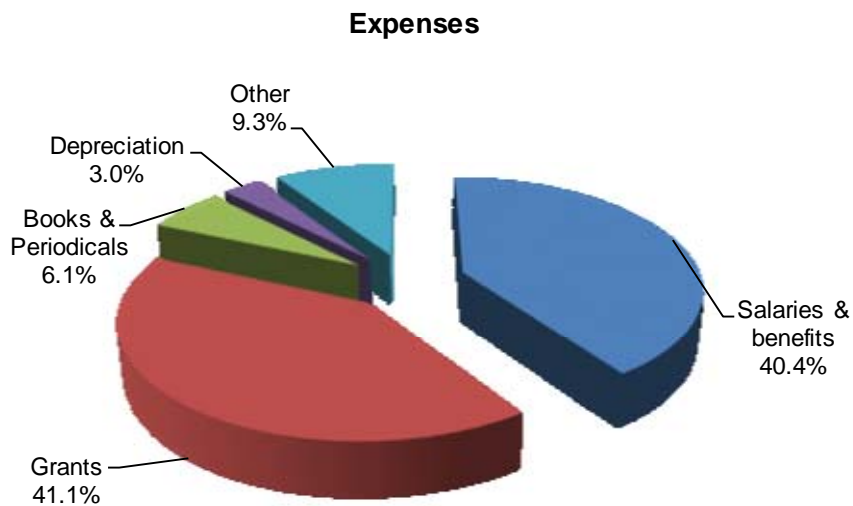
Financial Analysis of the Organization as a Whole

Revenue from the state was consistent in 2015 with prior year in the Regional Library Basic Support System funds.

The Library's revenue is substantially received from six sources; city, county, state, federal grants/special projects and other (fees and charges). The following graph illustrates the major sources of these revenues and related percentages:



For the years ended December 31, 2015, the Library incurred operating expenses of \$6.68 million. The following graph illustrates the major expense groups and the percent of the total expense each represents for the year ending December 31, 2015:



**PIONEERLAND LIBRARY SYSTEM'S (PLS)
MANAGEMENT'S DISCUSSION AND ANALYSIS**

General Fund Budgetary Highlights

Over the course of the year, the Library's Board of Directors did not revise the budget. The General Fund had enough revenues to meet expenditures resulting in a positive change of fund balance.

Capital Assets

The Library's capital assets as of December 31, 2015, included computers and equipment, books, and an automation system. A breakdown of these assets is shown in Table III.

**Table III
Changes in Capital Assets of the Library
December 31, 2015**

<u>Description</u>	<u>Beginning Balance</u>	<u>Net additions/ (deletions)</u>	<u>Ending Balance</u>
Vehicles	\$ 20,488	\$ -	\$ 20,488
Furniture and equipment	1,679,941	84,940	1,764,881
Books	4,174,958	-	4,174,958
Ill automation system	114,040	-	114,040
	<u>5,989,427</u>	<u>84,940</u>	<u>6,074,367</u>
Depreciation and amortization	<u>5,225,721</u>	<u>201,273</u>	<u>5,426,994</u>
Total	<u>\$ 763,706</u>	<u>\$ (116,333)</u>	<u>\$ 647,373</u>

Contacting Library Management

This financial report is designed to provide the State of Minnesota, city and county officials, taxpayers, library patrons and citizens in the Pioneerland service area with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to the Director, Pioneerland Library System, P.O. Box 327, Willmar, MN 56201.

PIONEERLAND LIBRARY SYSTEM

BASIC FINANCIAL STATEMENTS

For The Year Ended December 31, 2015

PIONEERLAND LIBRARY SYSTEM
STATEMENT OF NET POSITION
December 31, 2015

ASSETS	
Cash and cash equivalents	\$ 2,558,594
Investments	2,507,932
Receivables	502,784
Prepaid expenses	60,583
Capital assets, net of accumulated depreciation	
Vehicle	4,438
Furniture and equipment	294,594
Books	294,655
Automation	53,686
TOTAL ASSETS	<u>6,277,266</u>
DEFERRED OUTFLOWS OF RESOURCES	
Related to pensions	<u>234,506</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>234,506</u>
LIABILITIES	
Accounts payable	43,508
Accrued wages	86,040
Accrued payroll taxes	19,057
Unearned revenue	212,674
Long-term liability	
Compensated absences	109,595
Net pension liability	1,720,597
TOTAL LIABILITIES	<u>2,191,471</u>
DEFERRED INFLOWS OF RESOURCES	
Related to pension	<u>114,932</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>114,932</u>
NET POSITION	
Net investment in capital assets	647,373
Restricted net position-expendable	716,313
Unrestricted net position	2,841,683
TOTAL NET POSITION	<u>\$ 4,205,369</u>

See notes to financial statements.

**PIONEERLAND LIBRARY SYSTEM
STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2015**

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Pioneerland Library System	\$ 6,604,919	\$ 79,047	\$ 6,616,102	\$ -
Permanent endowment				
General revenue				
Other income				177,432
Investment gain - net				<u>33,147</u>
Total general revenue				<u>210,579</u>
Change in net position				300,809
Net position, Beginning				<u>3,904,560</u>
Net position, Ending				<u>\$ 4,205,369</u>

See notes to financial statements.

**PIONEERLAND LIBRARY SYSTEM
BALANCE SHEET
GENERAL FUND
December 31, 2015**

ASSETS

Cash and cash equivalents	\$ 2,558,594
Investments	2,507,932
Accounts receivable	502,784
Prepaid expenses	<u>60,583</u>

TOTAL ASSETS **\$ 5,629,893**

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$ 43,508
Accrued salaries	86,040
Accrued payroll tax	19,057
Unearned revenue	<u>212,674</u>
Total liabilities	<u>361,279</u>

Fund Balance

Nonspendable	60,583
Committed	716,313
Assigned	4,564,092
Unassigned	<u>(72,374)</u>
Total fund balance	<u>5,268,614</u>

TOTAL LIABILITIES AND FUND BALANCE **\$ 5,629,893**

See notes to financial statements.

PIONEERLAND LIBRARY SYSTEM
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
December 31, 2015

Total fund balances-general fund \$ 5,268,614

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 as assets in government funds.

Cost of capital assets	6,074,367
Less accumulated depreciation	(5,426,994)

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Deferred outflows of resources related to pensions	234,506
Deferred inflows of resources related to pensions	(114,932)

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Accrued compensated absences	(109,595)
Pension Benefits Payable	<u>(1,720,597)</u>

Total net position - government activities \$ 4,205,369

See notes to financial statements.

PIONEERLAND LIBRARY SYSTEM
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND
For The Year Ended December 31, 2015

REVENUES

Intergovernmental	
State	\$ 438,950
Counties	1,514,088
Cities	1,833,004
Gifts	32,453
Interest income	53,087
Charges & fines	46,139
Copy machine, fax & equipment rental	30,371
Book sales	2,537
Grants	2,797,607
Other	177,432
Market gain on investments - net	<u>(19,940)</u>
TOTAL REVENUES	<u>6,905,728</u>

EXPENDITURES

Current	
Salaries and wages	2,075,407
Payroll tax	142,070
Employee benefits	390,896
Vehicle operation	67,987
Telephone and line charges	7,306
Postage and shipping	10,497
Equipment maintenance	15,485
Supplies	45,339
Promotion and programming	19,242
Mileage and meetings	13,764
Professional fees and memberships	35,271
Insurance	25,342
Continuing education	20,575
Central services	233,228
Grant expenditures	2,711,314
Rent	37,209
Sales tax	2,117
Capital outlay	
Automation system	75,297
Equipment	96,221
Books	<u>402,073</u>
TOTAL EXPENDITURES	<u>6,426,640</u>

CHANGE IN FUND BALANCE 479,088

FUND BALANCE, BEGINNING OF YEAR 4,789,526

FUND BALANCE, END OF YEAR \$ 5,268,614

See notes to financial statements.

PIONEERLAND LIBRARY SYSTEM
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2015

Total net change in fund balance	\$ 479,088
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in government funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.

Capital outlays	84,940
Depreciation expense	(201,273)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds

Vacation and severance benefits	8,459
Pension expense	<u>(70,405)</u>

Change in net position - governmental activities	\$ <u>300,809</u>
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See notes to financial statements.

PIONEERLAND LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Pioneerland Library System complies with Generally Accepted Accounting Principles (GAAP). The Library System's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Reporting Entity

On August 8, 1983, the Boards and all governing jurisdictions of the Crow River Regional Library System and the Western Plains Library System agreed to merge and operate as Pioneerland Library System under Minnesota Statute 375.335. The merger was effective July 1, 1983, and joint operations commenced January 1, 1984. The governing body consists of a thirty-six-member board appointed by the various member jurisdictions. The board is responsible for legislative and fiscal control. A Director is appointed by the Board and is responsible for administrative control of the Library System.

The accompanying financial statements present the Library System's primary government and component units over which the Library System exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the Library System (as distinct from legal relationships).

Government-Wide Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grant and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*. The financial activities of the Library are reported as single activity in the statement of changes in net position and the fund financial statements.

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 method of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual basis of accounting with the exception of provision for vacation and severance liabilities.

Grants and entitlements and interest associated with the current fiscal period are all considered being susceptible to accrual and so have been recognized as revenues of the current period. All other revenue items are considered measurable and available only when the Library receives the cash.

Capital Assets

Capital assets are reported in the governmental activities column in the government-wide financial statements. General capital assets result from expenditures in the government funds.

PIONEERLAND LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (continued)

All capital assets are recorded at cost (or estimated historical cost) and updated for additions and retirements during the year. The Library's capitalization threshold is \$1,500. The Library does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not.

Depreciation is provided for using the straight-line method of depreciation over the estimated useful lives of the property and equipment. Estimated useful lives of assets range from 5 – 20 years.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. Pioneerland Library System has one item that qualifies for reporting in this category – a deferred outflow relating to pension activity, reported in government-wide statement of net position. A deferred outflow relating to pension activity results from the net effect of the change in proportionate share and employer contributions.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element 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 times. Pioneerland Library System has one item that qualifies for reporting in this category under full accrual basis of accounting. Accordingly, the item, deferred inflow is reported in the government-wide statement of net position. A deferred inflow relating to pension activity is a result of the net difference between projected and actual earning on plan investments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position

Net position presents the difference between assets and liabilities in the statement of net position. Net investment in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by governmental legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

Budgets and Budgetary Accounting

The Library System prepares an annual budget consistent with its basis of accounting. Unexpended budgeted amounts are made available to the various libraries for use in their subsequent year budgets. Once approved, the Board may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

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 at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

PIONEERLAND LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Risk Management

The Library System is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the Library System carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past four years.

Fund Balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the Library System is bound to observe constraints imposed upon the use of resources reported in governmental funds. These classifications are as follows:

Nonspendable – consists of amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact, such as, inventories and prepaid items.

Restricted – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed – consists of amounts that are constrained for specific purposes that are internally imposed by formal action of the Board of Directors. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. These constraints are established by Resolution of the Board of Directors.

Assigned – consists of amounts intended to be used by the Library System for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to the Library's Policy, the Board of Directors is authorized to establish assignments of fund balance.

Unassigned – is the residual classification for the General Fund.

The Library System uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the System would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balances when expenditures are made.

The Board of Directors has formally adopted a fund balance policy for the General Fund.

NOTE 2 CASH AND INVESTMENTS

The Library System's cash and investments as of December 31, 2015, are summarized as follows:

Cash on deposit	\$ 2,558,594
Investments	<u>2,507,932</u>
	<u><u>\$ 5,066,526</u></u>

Deposits

In accordance with Minnesota statutes, the Library is authorized to designate a depository for public funds and to invest in certificates of deposit. The Minnesota statutes require that all Library deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

PIONEERLAND LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 2 CASH AND INVESTMENTS (continued)

Deposits (continued)

Authorized collateral includes treasury bills, notes, and bond issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

At December 31, 2015, the Library's deposits had a carrying amount of \$2,558,594 and a bank balance of \$2,604,892 along with a money market balance of \$40,949. Of the balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held in safekeeping.

Investments

Minnesota statutes generally authorizes the following types of investments as available to the Library:

1. Securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minnesota Statute.
2. Mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments.
3. General obligations of the State of Minnesota and its municipalities, and certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service.
4. Bankers' acceptances of United States banks.
5. Commercial paper issued by the United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less.
6. Repurchase agreements, securities lending agreements, joint powers in investment trusts and guaranteed investment contracts, with certain restrictions.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment.

	Fair Value	Investments Maturities in Years		
		Less than 1	1-5 Years	6+ Years
State and Local Government Bonds	\$ 838,501	\$ 301,379	\$ 537,122	\$ -
Federal National Mortgage Assn	365,552	-	269,267	96,285
Federal Home Loan Bank	243,563	-	243,563	-
Federal Home Loan Mortgage Corp	376,722	-	266,658	110,064
Government National Mortgage Assn	65,694	-	-	65,694
Federal Farm Credit Bank	347,077	-	347,077	-
United States Treasury Notes	270,823	-	270,823	-
	<u>\$ 2,507,932</u>	<u>\$ 301,379</u>	<u>\$ 1,934,510</u>	<u>\$ 272,043</u>

PIONEERLAND LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 2 CASH AND INVESTMENTS (continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the Library's policy to invest only in securities that meet the ratings requirements set by state statute. The Library's investments are rated between an 'A' up to 'AAA', all of which qualify under MN Statute 118.A.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the Library's investment in a single issuer. The Library does not have a formal policy that addresses concentration of credit risk. The security types and amounts that exceed five percent of the Library's total investments are as follows:

Security Type	Amount	Percent
State and Local Government Bonds	\$ 838,501	33%
Federal Home Loan Mortgage Corp	376,722	15%
Federal National Mortgage Assn	365,552	15%
Federal Farm Credit Bank	347,077	14%
United States Treasury Notes	270,823	11%
Federal Home Loan Bank	243,563	10%

NOTE 3 CAPITAL ASSETS

	Beginning Balance	Additions	Deletions	Ending Balance
Vehicles	\$ 20,488	\$ -	\$ -	\$ 20,488
Furnishings and equipment	1,679,941	84,940	-	1,764,881
Books	4,174,958	-	-	4,174,958
Ill Automation System	114,040	-	-	114,040
	5,989,427	84,940	-	6,074,367
Depreciation and amortization	5,225,721	201,273	-	5,426,994
Total	\$ 763,706	\$ (116,333)	\$ -	\$ 647,373

NOTE 4 COMPENSATED ABSENCES

Vacation and sick pay are accrued when earned in the government-wide financial statements. Vacation can be accumulated to the amount 50% of leave earned in one calendar year. Maximum sick leave accumulation is 800 hours. Upon separation, sick pay is paid out at 25%. Totals earned and unpaid at December 31, 2015, are vacation \$45,245 and sick leave \$64,350. The Board has accrued a liability of \$109,595 these amounts.

PIONEERLAND LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 5 FUND BALANCE CLASSIFICATION

At December 31, 2015, the governmental fund balance classifications are as follows:

	Beginning Balance	Revenues	Expenditures	Adjustments	Ending Balance
Committed					
Vehicle purchase	\$ 22,000	\$ -	\$ -	\$ -	\$ 22,000
Vacation/sick pay	182,292	-	-	(7,001)	175,291
Computer & Equipment	203,686	-	-	67,508	271,194
ILS & Hard/Software	247,782	-	-	46	247,828
Total Committed	<u>\$ 655,760</u>				<u>\$ 716,313</u>
Assigned					
Yellow Medicine Co. Extension	\$ 46,250	\$ 3,728	\$ 2,631	\$ -	\$ 47,347
Legacy	-	109,113	109,113	-	-
Telecom Grant	1,310,030	2,688,494	2,379,800	-	1,618,724
PLS	764,258	423,333	374,689	5	812,907
Automation	95,380	276,346	285,618	-	86,108
Spicer Endowment	2,797	29,055	5,334	-	26,518
Dawson Endowment	2,435	1	-	-	2,436
Mardag Foundation	18,348	-	3,649	-	14,699
New London Endowment	6,699	-	1,555	-	5,144
Willmar Endowment	-	59,011	-	-	59,011
Clara City	11,442	68,839	65,485	-	14,796
Maynard	14,166	30,456	32,653	(2,000)	9,969
Montevideo	49,880	193,581	185,667	-	57,794
Milan	27,432	29,136	26,732	(7,000)	22,836
Appleton	26,194	109,261	114,063	2,192	23,584
Dawson	82,013	99,569	95,275	-	86,307
Graceville	15,402	54,340	55,480	-	14,262
Ortonville	32,453	114,229	119,438	2,800	30,044
Madison	148,715	114,271	158,748	-	104,238
Canby	84,355	112,894	120,411	-	76,838
Kerkhoven	20,342	42,064	41,314	(3,000)	18,092
Benson	55,250	143,828	153,233	-	45,845
Atwater	64,532	47,474	46,577	-	65,429
Bird Island	3,061	48,630	47,733	-	3,958
Brownton	30,329	32,316	29,658	-	32,987
Cosmos	209,993	43,143	2,388	-	250,748
Dassel	61,049	46,815	48,181	(5,500)	54,183
Glencoe	49,767	140,875	141,981	-	48,661
Grove City	52,736	41,107	41,273	(4,500)	48,070
Hutchinson	128,610	268,254	267,119	-	129,745
Lake Lillian/Raymond	27,887	81,624	87,000	-	22,511
Litchfield	173,119	255,192	249,633	(23,500)	155,178
Renville	20,091	60,672	64,483	-	16,280

**PIONEERLAND LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

NOTE 5 FUND BALANCE CLASSIFICATION (continued)

	Beginning Balance	Revenues	Expenditures	Adjustments	Ending Balance
Assigned					
Spicer/New London	\$ 16,802	\$ 102,986	\$ 109,955	\$ -	\$ 9,833
Willmar	350,557	599,376	576,036	(20,050)	353,847
Winsted	12,498	34,789	34,427	-	12,860
Hector	18,523	52,431	53,029	-	17,925
Granite Falls	52,402	127,883	107,983	-	72,302
Olivia	77,525	131,240	124,512	-	84,253
Fairfax	6,414	56,404	54,995	-	7,823
Total Assigned	<u>\$ 4,169,736</u>				<u>\$ 4,564,092</u>

NOTE 6 DEFINED BENEFIT PENSION PLAN

A. Plan Description

The Pioneerland Library System participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

1. General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the Pioneerland Library System are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

1. GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equals 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

**PIONEERLAND LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

NOTE 6 DEFINED BENEFIT PENSION PLAN (continued)

B. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The Pioneerland Library System was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The Pioneerland Library System's contributions to the GERF for the year ended December 31, 2015, were \$148,839. The Pioneerland Library System's contributions were equal to the required contributions as set by state statute.

C. Pension Costs

1. GERF Pension Cost

At December 31, 2015, the Pioneerland Library System reported a liability of \$1,721,308 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Pioneerland Library System's proportion of the net pension liability was based on the Pioneerland Library System's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the Pioneerland Library System's proportion was .0332%.

For the year ended December 31, 2015, the Pioneerland Library System recognized pension expense of \$229,351 for its proportionate share of the GERF's pension expense.

At December 31, 2015, the Pioneerland Library System reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual investment earnings	\$ 162,881	\$ -
Differences between expected and actual economic experience	-	86,747
Changes in proportion and differences between contributions made and City's proportionate share of contributions	-	28,185
City's contributions to GERF subsequent to the measurement date	71,625	-
Totals	\$ 234,506	\$ 114,932

\$71,625 reported as deferred outflows of resources related to pensions resulting from Pioneerland Library System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016.

**PIONEERLAND LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

NOTE 6 DEFINED BENEFIT PENSION PLAN (continued)

C. Pension Costs (continued)

1. GERF Pension Cost (continued)

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

Year ended December 31:	Pension Expense Amount
2016	\$ 2,409
2017	2,409
2018	2,410
2019	40,721

D. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% effective every January 1st until 2034 and 2.5% for GERF.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. 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
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

**PIONEERLAND LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

NOTE 6 DEFINED BENEFIT PENSION PLAN (continued)

E. Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make 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.

F. Pension Liability Sensitivity

The following presents the Pioneerland Library System's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Pioneerland Library System's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Entity's proportionate share of the GERS net pension liability	\$ 2,705,389	\$ 1,720,596	\$ 907,309

G. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

NOTE 7 LEASE COMMITMENTS

Pioneerland Library System has entered into a number of operating leases, which contain cancellation provisions and are subject to annual appropriations. Lease expenditures for the year ended December 31, 2015, was \$37,209.

June 14, 2011, the Library renewed its lease agreement through December 2016 with Kandiyohi County. The lease expired in 2011 and the Library signed another contract to continue through December 2016 with an option to cancel with a six month written notice.

The future lease payments are as follows:

2016	\$ 38,326
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NOTE 8 CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Library System expects such amounts, if any, to be immaterial.

PIONEERLAND LIBRARY SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2015

NOTE 9 LONG-TERM CONTRACT

During 2014, the Library signed a long-term contract with a broadband provider to service the various libraries located in the region. The contract is set to expire June 30, 2017. The monthly recurring charge of such service is \$207,600. This fee is expected to be supplemented by grant dollars to limit the costs to the Library.

The future contract payments are as follows:

2016	\$2,491,200
2017	1,245,600

NOTE 10 PRIOR PERIOD ADJUSTMENT

At December 31, 2015, the Entity adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. This implementation allows the Library to report its proportionate share of collective net pension liability, deferred inflows of resources and deferred outflows of resources, and pension expense and to reflect an actuarially determined liability for the present value of projected future benefits for retired and active employees less the pension plan's fiduciary net position on the financial statements.

The beginning net position of the governmental activities has been adjusted to reflect a change in accounting principle.

	<u>Government-Wide Statement</u>
Net position, beginning as previously reported	\$ 5,435,178
Change in accounting principle	<u>(1,530,618)</u>
Net position, beginning as restated	<u>\$ 3,904,560</u>

NOTE 11 SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 4, 2016, which is the date the financial statements were available to be issued.

**PIONEERLAND LIBRARY SYSTEM
BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL - GENERAL FUND
For The Year Ended December 31, 2015**

	Budget Amounts		Actual	Over (Under)
	Original	Final		Final Budget
REVENUES				
Intergovernmental				
State	\$ 449,650	\$ 449,650	\$ 438,950	\$ (10,700)
Counties	1,514,845	1,514,845	1,514,088	(757)
Cities	1,838,575	1,838,575	1,833,004	(5,571)
Gifts	27,550	27,550	32,453	4,903
Interest	700	700	53,087	52,387
Charges, fines	47,649	47,649	46,139	(1,510)
Copy machine, fax & equipment rental	19,494	19,494	30,371	10,877
Book sales	920	920	2,537	1,617
Grants	2,536,751	2,536,751	2,797,607	260,856
Other	46,427	46,427	177,432	131,005
Market gain	-	-	(19,940)	(19,940)
TOTAL REVENUES	<u>6,482,561</u>	<u>6,482,561</u>	<u>6,905,728</u>	<u>423,167</u>
EXPENDITURES				
Current				
Salaries and wages	2,142,448	2,142,448	2,075,407	(67,041)
Payroll tax	325,864	325,864	142,070	(183,794)
Employee benefits	248,330	248,330	390,896	142,566
Vehicle operation	71,500	71,500	67,987	(3,513)
Telephone and line charges	6,778	6,778	7,306	528
Postage and shipping	7,034	7,034	10,497	3,463
Equipment maintenance	20,056	20,056	15,485	(4,571)
Supplies	45,165	45,165	45,339	174
Promotion and programming	17,309	17,309	19,242	1,933
Mileage and meetings	16,500	16,500	13,764	(2,736)
Memberships and professional fees	108,000	108,000	35,271	(72,729)
Insurance	24,644	24,644	25,342	698
Continuing education	28,900	28,900	20,575	(8,325)
Central services	230,458	230,458	233,228	2,770
Grant expenditures	2,754,740	2,754,740	2,711,314	(43,426)
Rent	37,209	37,209	37,209	-
Sales tax	1,580	1,580	2,117	537
Capital outlay				
Automation system	77,200	77,200	75,297	(1,903)
Equipment	49,700	49,700	96,221	46,521
Books	396,216	396,216	402,073	5,857
TOTAL EXPENDITURES	<u>6,609,631</u>	<u>6,609,631</u>	<u>6,426,640</u>	<u>(182,991)</u>
CHANGE IN FUND BALANCE	(127,070)	(127,070)	479,088	606,158
FUND BALANCE BEGINNING OF YEAR	<u>4,789,526</u>	<u>4,789,526</u>	<u>4,789,526</u>	<u>-</u>
FUND BALANCE END OF YEAR	<u>\$ 4,662,456</u>	<u>\$ 4,662,456</u>	<u>\$ 5,268,614</u>	<u>\$ 606,158</u>

See notes to required supplementary information.

**PIONEERLAND LIBRARY SYSTEM, MINNESOTA
SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
AND EMPLOYER CONTRIBUTIONS
GENERAL EMPLOYEES RETIREMENT FUND**

Schedule of Proportionate Share of Net Pension Liability

<u>Fiscal Year Ending</u>	<u>Employer's Proportion (Percentage) of the Net Pension Liability (Asset)</u>	<u>Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset)</u>	<u>Employer's Covered-Employee Payroll</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
June 30, 2015	0.0332%	\$ 1,720,596	\$ 2,015,822	85.4%	78.2%

Schedule of Employer Contributions

<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered-Employee Payroll</u>	<u>Contributions as a Percentage of Covered-Employee Payroll</u>
December 31, 2015	\$ 148,839	\$ 148,839	\$ -	\$ 1,984,520	7.50%

Note: Schedules are intended to show a 10 year trend. Additional years will be reported as they become available.

PIONEERLAND LIBRARY SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2015

Budgets and Budgetary Accounting

The Library System prepares an annual budget consistent with its basis of accounting. Unexpended budgeted amounts are made available to the various libraries for use in their subsequent year budgets. Once approved, the Board may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

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

Board of Directors
Pioneerland Library System
Willmar, Minnesota

We have audited 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, the financial statements of the governmental activities and General Fund of Pioneerland Library System as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Pioneerland Library System's basic financial statements, and have issued our report thereon dated April 4, 2016.

Internal Control Over Financial Reporting

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

A deficiency in internal control over financial reporting 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 over financial reporting such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations as item 2007-002 and 2008-001 to be material weaknesses. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 2007-001 to be a significant deficiency in internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories except for public indebtedness.

In connection with our audit, nothing came to our attention that caused us to believe that Pioneerland Library System failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Pioneerland Library System's noncompliance with the above referenced provisions.

Pioneerland Library System's responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Recommendations. The Pioneerland Library System's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 result 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.

Westberg Eischens, PLLP

Westberg Eischens, PLLP
Willmar, Minnesota
April 4, 2016

PIONEERLAND LIBRARY SYSTEM
Schedule of Findings and Recommendations
Year Ended December 31, 2015

I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Finding 2007-001

Criteria:

Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Condition:

Due to the limited size of the Organizations business staff, the Organization has limited segregation of duties.

Questioned Costs:

None

Context:

The Organization has informed us that the small size of its business office staff precludes proper separation of duties at this time.

Effect:

The Organization is unable to maintain separation of incompatible duties.

Cause:

Limited number of staff in the business office

Recommendation:

We recommend that the Organization continue to separate incompatible duties as best it can within the limits of what the Organization considers to be cost beneficial.

CORRECTIVE ACTION PLAN (CAP)

Finding 2007-001

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The Organization reviews and makes improvements to its internal controls on an ongoing basis, and attempts to maximize the segregation of duties in all areas within the limits of the staff available.

Officer Responsible for Ensuring CAP:

Not Applicable

Planned Completion Date:

Not Applicable

Plan to Monitor Completion of CAP:

Not Applicable

PIONEERLAND LIBRARY SYSTEM
Schedule of Findings and Recommendations (Continued)
Year Ended December 31, 2015

Finding 2007-002

Criteria:

Generally, a system of internal control includes the ability to understand and prepare the Organization's financial statements and related disclosures in accordance with accounting principles generally accepted in the United States of America (GAAP).

Condition:

Due to the limited size of the Organization's business staff and related resources available, the Organization has relied upon the auditor to prepare the financial statements and related disclosures in accordance with accounting principles generally accepted in the United States of America.

Questioned Costs:

None

Context:

The Organization has informed us that the small size of its business office staff and limited related resources preclude the Organization from preparing its own financial statements.

Effect:

The Organization is unable to prepare GAAP based financial statements.

Cause:

Limited number and qualifications of staff in the business office.

Recommendation:

We recommend that the Organization continue to review the auditor prepared financial statements with the intention of understanding and acceptance of responsibility for reporting under generally accepted accounting principles.

CORRECTIVE ACTION PLAN (CAP)

Finding 2007-002

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The Organization reviews draft financial statements with the auditor in an effort to increase management's understanding and to provide input into the required disclosures.

Officer Responsible for Ensuring CAP:

Not Applicable

Planned Completion Date:

Not Applicable

Plan to Monitor Completion of CAP:

Not Applicable

PIONEERLAND LIBRARY SYSTEM
Schedule of Findings and Recommendations (Continued)
Year Ended December 31, 2015

Finding 2008-001

Criteria:

A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. A control deficiency that typically is considered significant is the identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal control.

Condition:

During our audit, we proposed numerous adjustments that resulted in significant changes to the Organization's financial statements.

Questioned Costs:

None

Context:

The Organization's limited size, training and qualifications of business office personnel have precluded the Organization from the ability to properly identify and correct financial misstatements.

Effect:

The Organization's inability to detect material misstatements in the financial statements increases the likelihood that the financial statements may not be fairly presented.

Cause:

Inadequate internal controls and monitoring of internal controls by qualified Organization personnel.

Recommendation:

We recommend that the Organization review internal controls currently in place, then design and implement procedures to improve internal controls over financial reporting to detect misstatements in the financial statements.

CORRECTIVE ACTION PLAN (CAP)

Finding 2008-001

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The Library will continue to review internal controls and work to design modifications that will increase internal control and the ability to detect material misstatements.

Officer Responsible for Ensuring CAP:

Director

Planned Completion Date:

Not Applicable

Plan to Monitor Completion of CAP:

Not Applicable