

**PIONEERLAND LIBRARY SYSTEM  
WILLMAR, MINNESOTA**

**FINANCIAL STATEMENTS  
December 31, 2017**

WESTBERG EISCHENS, PLLP  
Certified Public Accountants  
Willmar, Minnesota 56201

## TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT .....	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS .....	3-8
<b>BASIC FINANCIAL STATEMENTS</b>	
Government-wide Financial Statements	
Statement of Net Position .....	9
Statement of Activities.....	10
Government-wide Fund Financial Statements	
Balance Sheet .....	11
Reconciliation of the Balance Sheet to the Statement of Net Position .....	12
Statement of Revenues, Expenditures and Changes in Fund Balance.....	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities .....	14
NOTES TO FINANCIAL STATEMENTS.....	15-25
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedule	
Budget and Actual – General Fund .....	26
Schedules of Proportionate Share of Net Pension Liability and Employer Contributions .....	27-28
Notes to Required Supplementary Information .....	29
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 <i>GOVERNMENT AUDITING STANDARDS</i> .....	30-31
SCHEDULE OF FINDINGS AND RECOMMENDATIONS .....	32-34

**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, 2017, 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, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of proportionate share of net pension liability and employer contributions on pages 3 through 8 and 26 through 28 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 of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2018 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 10, 2018

**PIONEERLAND LIBRARY SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**For The Year Ended December 31, 2017**

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

**Prepared by Laurie Ortega, Executive Director**

**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, 2017, 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, 2017, 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, 2017, 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:

- Ø Total assets of the Library were approximately \$6.24 million at December 31, 2017. Total deferred outflows of resources were approximately \$866 thousand at December 31, 2017. Total liabilities of the Library were approximately \$2.57 million at December 31, 2017. Total deferred inflows of resources were approximately \$729 thousand at December 31, 2017. Thus, total net position was approximately \$3.81 million at December 31, 2017.
- Ø Total revenue decreased by approximately \$1.04 million during the year ended December 31, 2017. Total revenues were approximately \$5.70 million for the year ended December 31, 2017.
- Ø Total expenses decreased by approximately \$1.13 million during the year ended December 31, 2017. Total expenses were approximately \$5.86 million for the year ended December 31, 2017.
- Ø Net position decreased by approximately \$158 thousand for the year ended December 31, 2017.

**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 (continued)**

Under its Joint Powers Agreement (January 18, 2001), the Library's signatories of nine counties and 17 cities (18<sup>th</sup> 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:

- Ø *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.
- Ø *Restricted net position* - consists of assets which uses are restricted by donors, grantors or other legally binding obligations.
- Ø *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, 2017, with comparative amounts for 2016.

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

<u>Description</u>	<u>2017</u>	<u>2016</u>	<u>Change</u>
Current and other assets	\$ 5,710,260	\$ 5,577,123	\$ 133,137
Capital assets, net	<u>533,355</u>	<u>779,164</u>	<u>(245,809)</u>
Total assets	<u>6,243,615</u>	<u>6,356,287</u>	<u>(112,672)</u>
Deferred outflows related to pension	<u>866,090</u>	<u>1,086,509</u>	<u>(220,419)</u>
Total deferred outflows of resources	<u>866,090</u>	<u>1,086,509</u>	<u>(220,419)</u>
Current liabilities	388,454	480,027	(91,573)
Long-term liabilities	<u>2,184,166</u>	<u>2,722,132</u>	<u>(537,966)</u>
Total liabilities	<u>2,572,620</u>	<u>3,202,159</u>	<u>(629,539)</u>
Deferred inflows related to pension	<u>729,244</u>	<u>275,190</u>	<u>454,054</u>
Total deferred inflows of resources	<u>729,244</u>	<u>275,190</u>	<u>454,054</u>
Net position			
Net investment in capital assets	533,355	779,164	(245,809)
Restricted net position	710,761	668,761	42,000
Unrestricted net position	<u>2,563,725</u>	<u>2,517,522</u>	<u>46,203</u>
Total net position	<u>\$ 3,807,841</u>	<u>\$ 3,965,447</u>	<u>\$ (157,606)</u>

Investments in capital assets comprise about 9% of the Library's total assets and about 14% of the total net position.

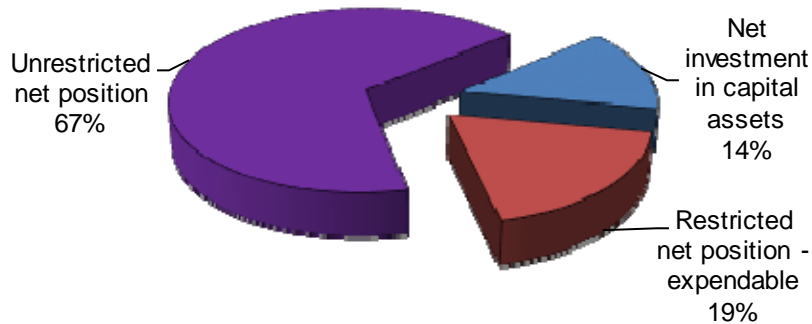
The Library's net position also consists of assets restricted by donors, grants or other agreements. The restricted net position consists of expendable net position in which uses have been restricted, and endowments in which the net position earnings are expendable as designated by the donor while the principal 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, 2017**



**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>2017</u>	<u>2016</u>	<u>Change</u>
Revenues:			
Program revenues			
Intergovernmental	\$ 3,903,773	\$ 3,831,864	\$ 71,909
Grants	1,558,289	2,568,938	(1,010,649)
Charges for services	76,662	74,971	1,691
Gifts	42,902	38,426	4,476
General revenues			
Interest income	47,558	48,729	(1,171)
Market loss on investments - net	(20,104)	(19,075)	(1,029)
Other income	93,780	201,717	(107,937)
Total revenues	<u>5,702,860</u>	<u>6,745,570</u>	<u>(1,042,710)</u>
Expenses:			
Program expenses			
Salaries including related taxes and benefits	2,721,013	2,815,841	(94,828)
Grant expenditures	1,800,660	2,814,573	(1,013,913)
Books, periodicals and videos	441,202	514,275	(73,073)
Depreciation	252,528	268,006	(15,478)
Other	645,063	572,797	72,266
Total expenses	<u>5,860,466</u>	<u>6,985,492</u>	<u>(1,125,026)</u>
Decrease in net position	(157,606)	(239,922)	82,316
Net position January 1	<u>3,965,447</u>	<u>4,205,369</u>	<u>(239,922)</u>
Net position December 31	<u>\$ 3,807,841</u>	<u>\$ 3,965,447</u>	<u>\$ (157,606)</u>

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

**Statement of Activities (continued)**

Grant revenues decreased by \$1,010,649 due to a decrease in RLTA and E-Rate revenue.

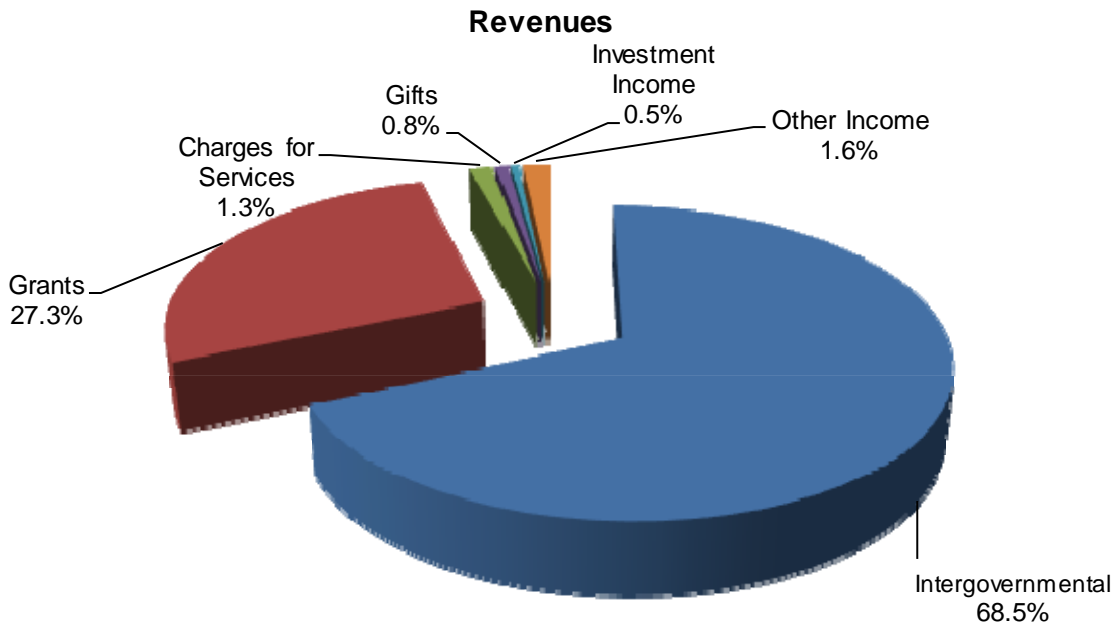
Grant expenditures decreased by \$1,013,913 due to decrease in RLTA and E-Rate expense.

Salaries and related expenses decreased due to a decrease in health insurance. Books, periodicals, and videos expense decreased due to books purchased for the Cosmos library in the prior year. Depreciation expense is consistent with prior year. 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 2017 with prior year in the Regional Library Basic Support System funds.

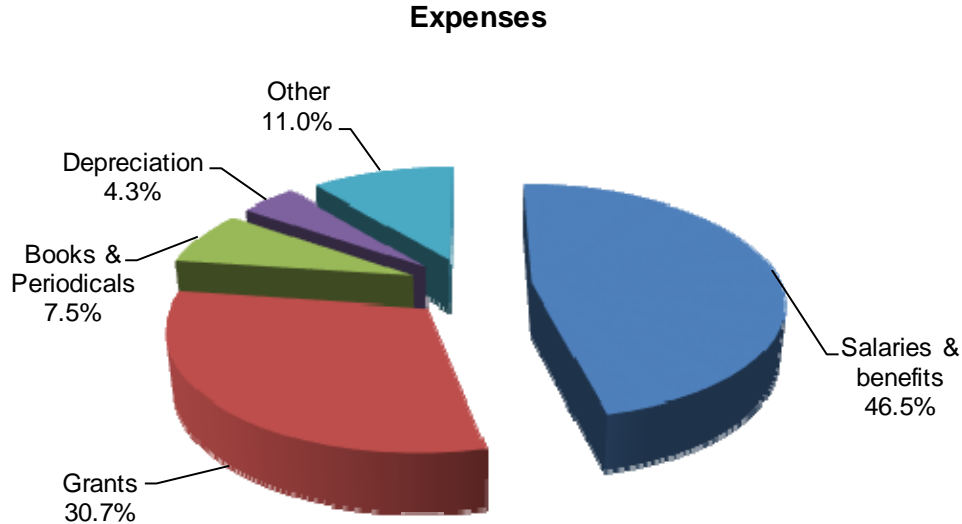
The Library's revenue is substantially received from six sources; city, county, state, federal grants/special projects and other (fees and charges). The following graph illustrates the major sources of these revenues and related percentages:



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

**Financial Analysis of the Organization as a Whole (continued)**

For the year ended December 31, 2017, the Library incurred operating expenses of \$5.86 million. The following graph illustrates the major expense groups and the percent of the total expense each represents for the year ending December 31, 2017:



**General Fund Budgetary Highlights**

Over the course of the year, the Library's Board of Directors did not revise the budget.

**Capital Assets**

The Library's capital assets as of December 31, 2017, 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, 2017**

<u>Description</u>	<u>Beginning Balance</u>	<u>Net additions / (deletions)</u>	<u>Ending Balance</u>
Vehicles	\$ 20,488	\$ -	\$ 20,488
Furniture and equipment	2,164,678	6,719	2,171,397
Books	4,174,958	-	4,174,958
Ill automation system	114,040	-	114,040
	<u>6,474,164</u>	<u>6,719</u>	<u>6,480,883</u>
Depreciation and amortization	<u>5,695,000</u>	<u>252,528</u>	<u>5,947,528</u>
Total	<u>\$ 779,164</u>	<u>\$ (245,809)</u>	<u>\$ 533,355</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, 2017**

**PIONEERLAND LIBRARY SYSTEM**  
**STATEMENT OF NET POSITION**  
**December 31, 2017**

<b>ASSETS</b>	
Cash and cash equivalents	\$ 3,224,946
Investments	2,408,237
Receivables	4,548
Prepaid expenses	72,529
Capital assets, net of accumulated depreciation	
Vehicle	340
Furniture and equipment	367,610
Books	157,335
Automation	8,070
<b>TOTAL ASSETS</b>	<u>6,243,615</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Related to pensions	<u>866,090</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>866,090</u>
 <b>LIABILITIES</b>	
Accounts payable	26,917
Accrued wages	84,780
Accrued payroll taxes	14,904
Unearned revenue	261,853
Long-term liability	
Compensated absences	115,771
Net pension liability	2,068,395
<b>TOTAL LIABILITIES</b>	<u>2,572,620</u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Related to pensions	<u>729,244</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>729,244</u>
 <b>NET POSITION</b>	
Net investment in capital assets	533,355
Restricted net position-expendable	710,761
Unrestricted net position	2,563,725
<b>TOTAL NET POSITION</b>	<u>\$ 3,807,841</u>

See notes to financial statements.

**PIONEERLAND LIBRARY SYSTEM  
STATEMENT OF ACTIVITIES  
For The Year Ended December 31, 2017**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Pioneerland Library System	\$ 5,860,466	\$ 76,662	\$ 5,504,964	\$ -	\$ (278,840)
Permanent endowment					
General revenue					
Other income					93,780
Investment gain - net					<u>27,454</u>
Total general revenue					<u>121,234</u>
Change in net position					(157,606)
Net position, Beginning					<u>3,965,447</u>
Net position, Ending					<u>\$ 3,807,841</u>

See notes to financial statements.

**PIONEERLAND LIBRARY SYSTEM  
BALANCE SHEET  
GENERAL FUND  
December 31, 2017**

**ASSETS**

Cash and cash equivalents	\$ 3,224,946
Investments	2,408,237
Accounts receivable	4,548
Prepaid expenses	<u>72,529</u>

**TOTAL ASSETS** **\$ 5,710,260**

**LIABILITIES AND FUND BALANCE**

**Liabilities**

Accounts payable	\$ 26,917
Accrued salaries	84,780
Accrued payroll tax	14,904
Unearned revenue	<u>261,853</u>
Total liabilities	<u>388,454</u>

**Fund Balance**

Nonspendable	72,529
Committed	710,761
Assigned	4,582,711
Unassigned	<u>(44,195)</u>
Total fund balance	<u>5,321,806</u>

**TOTAL LIABILITIES AND FUND BALANCE** **\$ 5,710,260**

See notes to financial statements.

**PIONEERLAND LIBRARY SYSTEM**  
**RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION**  
**December 31, 2017**

Total fund balances-general fund	\$ 5,321,806
----------------------------------	--------------

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	6,480,883
Less accumulated depreciation	(5,947,528)

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	866,090
Deferred inflows of resources related to pensions	(729,244)

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	(115,771)
Net Pension Liability	<u>(2,068,395)</u>

Total net position - government activities	<u>\$ 3,807,841</u>
--	---------------------

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, 2017**

**REVENUES**

Intergovernmental	
State	\$ 460,137
Counties	1,559,775
Cities	1,883,110
Gifts	42,902
Interest income	47,558
Charges and fines	41,844
Copy machine, fax and equipment rental	31,975
Book sales	2,843
Grants	1,558,289
Other	93,780
Market loss on investments - net	<u>(20,104)</u>

**TOTAL REVENUES**

5,702,109

**EXPENDITURES**

Current	
Salaries and wages	2,074,946
Payroll tax	142,993
Employee benefits	365,816
Vehicle operation	68,910
Telephone and line charges	8,051
Postage and shipping	7,111
Equipment maintenance	19,216
Supplies	61,745
Promotion and programming	28,603
Mileage and meetings	8,055
Professional fees and memberships	20,517
Insurance	22,976
Continuing education	23,703
Central services	236,016
Grant expenditures	1,800,660
Rent	39,476
Sales tax	2,241
Capital outlay	
Automation system	84,221
Equipment	20,941
Books	<u>441,202</u>

**TOTAL EXPENDITURES**

5,477,399

**CHANGE IN FUND BALANCE**

224,710

**FUND BALANCE, BEGINNING OF YEAR**

5,097,096

**FUND BALANCE, END OF YEAR**

\$ 5,321,806

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, 2017**

Total net change in fund balance	\$ 224,710
Amounts reported for governmental activities in the statement of activities are different because:	
<p>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.</p>	
Capital outlays	6,719
Depreciation expense	(252,528)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Portion of state PERA contribution	751
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.	
Pension expense	<u>(137,258)</u>
Change in net position - governmental activities	<u>\$ (157,606)</u>

See notes to financial statements.

**PIONEERLAND LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**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) grants 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 a 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, 2017

**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 time. 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 earnings 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, 2017

**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, 2017, are summarized as follows:

Cash on deposit	\$ 3,224,946
Investments	<u>2,408,237</u>
	<u>\$ 5,633,183</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, 2017**

**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, 2017, the Library's deposits had a carrying amount of \$3,224,946 and a bank balance of \$3,148,019 along with a money market balance of \$179,457. Of the balance, \$250,000 was covered by federal depositor 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	\$ 427,924	\$ 175,450	\$ 252,474	\$ -
Federal National Mortgage Assn	372,384	39,856	267,676	64,852
Federal Home Loan Bank	540,312	179,423	360,889	-
Federal Home Loan Mortgage Corp	211,762	24,996	123,131	63,635
Government National Mortgage Assn	35,493	-	-	35,493
Federal Farm Credit Bank	171,346	-	171,346	-
United States Treasury Notes	649,016	139,540	509,476	-
	<u>\$ 2,408,237</u>	<u>\$ 559,265</u>	<u>\$ 1,684,992</u>	<u>\$ 163,980</u>

**PIONEERLAND LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2017

**NOTE 2 CASH AND INVESTMENTS (continue d)**

**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	\$ 427,924	18%
Federal Home Loan Mortgage Corp	211,762	9%
Federal National Mortgage Assn	372,384	15%
Federal Farm Credit Bank	171,346	7%
United States Treasury Notes	649,016	27%
Federal Home Loan Bank	540,312	22%

**NOTE 3 CAPITAL ASSETS**

	Beginning Balance	Additions	Deletions	Ending Balance
Vehicles	\$ 20,488	\$ -	\$ -	\$ 20,488
Furnishings and equipment	2,164,678	6,719	-	2,171,397
Books	4,174,958	-	-	4,174,958
Ill Automation System	114,040	-	-	114,040
	6,474,164	6,719	-	6,480,883
Depreciation and amortization	5,695,000	252,528	-	5,947,528
Total	<u>\$ 779,164</u>	<u>\$ (245,809)</u>	<u>\$ -</u>	<u>\$ 533,355</u>

**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, 2017, are vacation \$46,246 and sick leave \$69,525. The Board has accrued a liability of \$115,771 for these amounts.

**PIONEERLAND LIBRARY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 5 FUND BALANCE CLASSIFICATION**

At December 31, 2017, the governmental fund balance classifications are as follows:

	Beginning Balance	Revenues	Expenditures	Adjustments	Ending Balance
<b>Committed</b>					
Vehicle purchase	\$ 22,000	\$ -	\$ -	\$ -	\$ 22,000
Vacation/sick pay	175,291	-	-	7,000	182,291
Computer & Equipment	223,559	-	-	5,000	228,559
ILS & Hard/Software	247,911	-	-	30,000	277,911
Total Committed	<u>\$ 668,761</u>				<u>\$ 710,761</u>
<b>Assigned</b>					
Yellow Medicine Co. Extension	\$ 49,703	\$ 4,754	\$ 2,468	\$ -	\$ 51,989
Legacy	-	84,585	84,585	-	-
Telecom Grant	1,612,533	1,473,703	1,470,943	-	1,615,293
PLS	853,939	471,238	362,928	(30,000)	932,249
Automation	60,645	281,036	308,242	-	33,439
Spicer Endowment	26,478	10,318	5,997	-	30,799
Mardag Foundation	10,868	-	4,023	-	6,845
New London Endowment	1,263	1	-	-	1,264
Willmar Endowment	60,401	27	-	-	60,428
Clara City	17,649	70,733	61,863	-	26,519
Maynard	11,052	31,428	31,223	(1,000)	10,257
Montevideo	92,706	197,748	169,484	-	120,970
Milan	20,764	29,449	32,624	-	17,589
Appleton	21,048	119,445	116,145	-	24,348
Dawson	72,203	95,968	102,732	-	65,439
Graceville	11,819	55,322	55,929	(1,000)	10,212
Ortonville	35,016	117,426	119,113	-	33,329
Madison	83,436	118,023	127,656	-	73,803
Canby	59,788	122,102	113,103	(5,000)	63,787
Kerkhoven	19,855	43,260	39,790	-	23,325
Benson	41,278	149,411	152,100	-	38,589
Atwater	62,551	49,415	53,002	-	58,964
Bird Island	1,420	55,478	48,374	-	8,524
Brownnton	33,896	33,909	30,686	(1,000)	36,119
Cosmos	131,867	34,621	44,050	-	122,438
Dassel	50,312	47,661	50,090	-	47,883
Glencoe	38,117	148,989	133,237	(2,000)	51,869
Grove City	45,842	41,214	36,610	-	50,446
Hutchinson	116,819	276,711	268,556	-	124,974
Lake Lillian/Raymond	23,718	82,031	80,291	-	25,458
Litchfield	151,137	263,718	257,881	-	156,974
Renville	19,383	62,412	58,452	(1,000)	22,343
Spicer/New London	11,787	103,996	97,571	-	18,212
Willmar	339,033	612,333	577,578	-	373,788
Winsted	13,977	36,074	35,878	-	14,173
Hector	24,137	48,255	48,328	-	24,064



**PIONEERLAND LIBRARY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 5 FUND BALANCE CLASSIFICATION (continued)**

	Beginning Balance	Revenues	Expenditures	Adjustments	Ending Balance
<b>Assigned</b>					
Granite Falls	\$ 92,070	\$ 126,621	\$ 111,342	\$ -	\$ 107,349
Olivia	88,427	113,080	125,968	-	75,539
Fairfax	<u>12,112</u>	62,504	50,495	(1,000)	<u>23,121</u>
Total Assigned	<u>\$ 4,419,049</u>				<u>\$ 4,582,711</u>

**NOTE 6 DEFINED BENEFIT PENSION PLAN**

**A. Plan Description**

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 Plan**

All full-time and certain part-time employees of Pioneerland Library System are covered by the General Employees Plan. General Employees Plan 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. Benefits provision 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 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent 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. General Employees Plan Benefits**

General Employees Plan 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 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a fully annuity is available when age plus year of service equal 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, 2017**

**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. General Employees Fund Contributions**

Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2017. Pioneerland Library System was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2017. Pioneerland Library System's contributions to the General Employees Fund for the year ended December 31, 2017, were \$154,638. Pioneerland Library System's contributions were equal to the required contributions as set by state statute.

**C. Pension Costs**

**1. General Employees Fund Pension Cost**

At December 31, 2017, Pioneerland Library System reported a liability of \$2,068,395 for its proportionate share of the General Employees Fund's net pension liability. Pioneerland Library System's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with Pioneerland Library System's totaled \$26,004. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Pioneerland Library System's proportion of the net pension liability was based on Pioneerland Library System's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, Pioneerland Library System's proportion share was .0324%, which was an increase of .0003% from its proportion share measured at June 30, 2016.

For the year ended December 31, 2017, Pioneerland Library System recognized pension expense of \$84,841 for its proportionate share of the General Employees Plan's pension expense. In addition, Pioneerland Library System recognized an additional \$751 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2017, Pioneerland Library System reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows <u>of Resources</u>	Deferred Inflows <u>of Resources</u>
Differences between expected and actual economic experience	\$ 68,168	\$ 132,790
Changes in actuarial assumptions	340,218	207,357
Difference between projected and actual investment earnings	363,881	351,198
Changes in proportion	18,269	37,899
Contributions subsequent to the measurement date	<u>75,554</u>	<u>-</u>
Total	<u>\$ 866,090</u>	<u>\$ 729,244</u>

**PIONEERLAND LIBRARY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 6      DEFINED BENEFIT PENSION PLAN (continued)**

**C. Pension Costs (continued)**

**1. General Employees Fund Pension Cost (continued)**

Deferred outflows of resources related to pensions, resulting from Pioneerland Library System's contributions made subsequent to the measurement date, of \$75,554 will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. 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
2018	\$ 72,370
2019	110,681
2020	(33,960)
Thereafter	(87,799)

**D. Actuarial Assumptions**

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be one percent per year for the General Employees Plan through 2044 and then 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2017, valuation was based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2017:

**General Employees Fund**

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

**PIONEERLAND LIBRARY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 6      DEFINED BENEFIT PENSION PLAN (continued)**

**D. Actuarial Assumptions (continued)**

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return 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 geometric real rate 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	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%
	100%	

**E. Discount Rate**

The discount rate used to measure the total pension liability in 2017 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumption, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. 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 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 Pioneerland Library System's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
Entity's proportionate share of the GERF net pension liability	\$ 3,208,234	\$ 2,068,395	\$ 1,135,229

**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](http://www.mnpera.org).

**PIONEERLAND LIBRARY SYSTEM**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**December 31, 2017**

**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, 2017, was \$39,476.

On January 1, 2017, the Library renewed its lease agreement through December 2021 with Kandiyohi County, with an option to cancel with a six month written notice.

The future lease payments are as follows:

2018	\$	40,660
2019		41,880
2020		43,136
2021		44,430

**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.

**NOTE 9 LONG-TERM CONTRACTS**

During 2014, the Library signed a long-term contract with a broadband provider to service the various libraries located in the region. The contract expired June 30, 2017. The monthly recurring charge of such service was \$207,600.

During 2017, 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, 2020. The monthly recurring charge of such service is \$36,762. This fee is expected to be supplemented by grant dollars to limit the costs to the Library.

The future contract payments are as follows:

2018	\$	441,144
2019		441,144
2020		220,572

**NOTE 10 SUBSEQUENT EVENTS**

Subsequent events have been evaluated through April 10, 2018, 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, 2017**

	Budget Amounts		Actual	Over (Under)
	Original	Final		Final Budget
<b>REVENUES</b>				
Intergovernmental				
State	\$ 453,367	\$ 453,367	\$ 460,137	\$ 6,770
Counties	1,556,078	1,556,078	1,559,775	3,697
Cities	1,881,983	1,881,983	1,883,110	1,127
Gifts	26,400	26,400	42,902	16,502
Interest	800	800	47,558	46,758
Charges, fines	44,185	44,185	41,844	(2,341)
Copy machine, fax and equipment rental	17,300	17,300	31,975	14,675
Book sales	1,100	1,100	2,843	1,743
Grants	1,556,563	1,556,563	1,558,289	1,726
Other	51,715	51,715	93,780	42,065
Market loss	-	-	(20,104)	(20,104)
<b>TOTAL REVENUES</b>	<u>5,589,491</u>	<u>5,589,491</u>	<u>5,702,109</u>	<u>112,618</u>
<b>EXPENDITURES</b>				
Current				
Salaries and wages	2,217,449	2,217,449	2,074,946	(142,503)
Payroll tax	324,039	324,039	142,993	(181,046)
Employee benefits	236,311	236,311	365,816	129,505
Vehicle operation	71,500	71,500	68,910	(2,590)
Telephone and line charges	8,040	8,040	8,051	11
Postage and shipping	7,270	7,270	7,111	(159)
Equipment maintenance	18,325	18,325	19,216	891
Supplies	48,300	48,300	61,745	13,445
Promotion and programming	28,059	28,059	28,603	544
Mileage and meetings	15,000	15,000	8,055	(6,945)
Memberships and professional fees	19,600	19,600	20,517	917
Insurance	27,513	27,513	22,976	(4,537)
Continuing education	31,100	31,100	23,703	(7,397)
Central services	235,995	235,995	236,016	21
Grant expenditures	1,812,105	1,812,105	1,800,660	(11,445)
Rent	39,476	39,476	39,476	-
Sales tax	1,735	1,735	2,241	506
Capital outlay				
Automation system	80,000	80,000	84,221	4,221
Equipment	30,550	30,550	20,941	(9,609)
Books	447,160	447,160	441,202	(5,958)
<b>TOTAL EXPENDITURES</b>	<u>5,699,527</u>	<u>5,699,527</u>	<u>5,477,399</u>	<u>(222,128)</u>
<b>CHANGE IN FUND BALANCE</b>	(110,036)	(110,036)	224,710	<u>\$ 334,746</u>
<b>FUND BALANCE BEGINNING OF YEAR</b>	<u>5,097,096</u>	<u>5,097,096</u>	<u>5,097,096</u>	
<b>FUND BALANCE END OF YEAR</b>	<u>\$ 4,987,060</u>	<u>\$ 4,987,060</u>	<u>\$ 5,321,806</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>	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the Library	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated With the Library	Employer's Covered- Employee Payroll	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	0.0332%	\$ 1,720,596	\$ -	\$ 1,720,596	\$ 2,015,822	85.4%	78.2%
June 30, 2016	0.0321%	\$ 2,606,361	\$ 34,020	\$ 2,640,381	\$ 1,993,427	130.7%	68.9%
June 30, 2017	0.0324%	\$ 2,068,395	\$ 26,004	\$ 2,094,399	\$ 2,086,920	99.1%	75.9%

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

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 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%
December 31, 2016	\$ 155,317	\$ 155,317	\$ -	\$ 2,070,893	7.50%
December 31, 2017	\$ 154,638	\$ 154,638	\$ -	\$ 2,061,840	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, 2017**

**NOTE 1 BUDGETARY INFORMATION**

**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.

**NOTE 2 CHANGES IN NET PENSION LIABILITIES AND RELATED RATIOS**

**General Employees Fund**

*2017 Changes*

Changes in Actuarial Assumptions:

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

*2016 Changes*

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

*2015 Changes*

Changes in Plan Provisions:

- On January 1, 2015 the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

**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, 2017, 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 10, 2018.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 consider the deficiency described in the accompanying Schedule of Findings and Recommendations to be a material weakness: 2008-001.

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 deficiencies described in the accompanying Schedule of Findings and Recommendations to be significant deficiencies: 2007-001 and 2007-002.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Library'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, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories except for tax increment financing.

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 Response to Findings**

Pioneerland Library System's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Recommendations. The Pioneerland Library System's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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 10, 2018

**PIONEERLAND LIBRARY SYSTEM  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
Year Ended December 31, 2017**

**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 Organization's 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, 2017**

**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, 2017**

**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