PIONEERLAND LIBRARY SYSTEM
WILLMAR, MINNESOTA

FINANCIAL STATEMENTS
December 31, 2018

WESTBERG EISCHENS, PLLP
Certified Public Accountants
Willmar, Minnesota 56201

TABLE OF CONTENTS

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, 2018, 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, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

2630 1st Street S
PO Box 362
Willmar, MN 56201

phone 320.235.3727
e-mail info@wecpas.net
fax 320.235.1641

515 Highway 7 E
PO Box 407
Montevideo, MN 56265

phone 320.269.7380
e-mail info@wecpas.net
fax 320.269.8176

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 8, 2019 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 8, 2019

PIONEERLAND LIBRARY SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION

For The Year Ended December 31, 2018

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, 2018, 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, 2018, 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, 2018, 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 $6.32 million at December 31, 2018. Total deferred outflows of resources were approximately $532 thousand at December 31, 2018. Total liabilities of the Library were approximately $2.19 million at December 31, 2018. Total deferred inflows of resources were approximately $715 thousand at December 31, 2018. Thus, total net position was approximately $3.95 million at December 31, 2018.

- Total revenue decreased by approximately $814 thousand during the year ended December 31, 2018. Total revenues were approximately $4.89 million for the year ended December 31, 2018.

- Total expenses decreased by approximately $1.11 million during the year ended December 31, 2018. Total expenses were approximately $4.75 million for the year ended December 31, 2018.

- Net position increased by approximately $138 thousand for the year ended December 31, 2018.

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".*

Library Financial Statements (continued)

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 donors, 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).

Net Position

Table I reflects the Library's condensed summary of the statement of net position as of December 31, 2018, with comparative amounts for 2017.

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

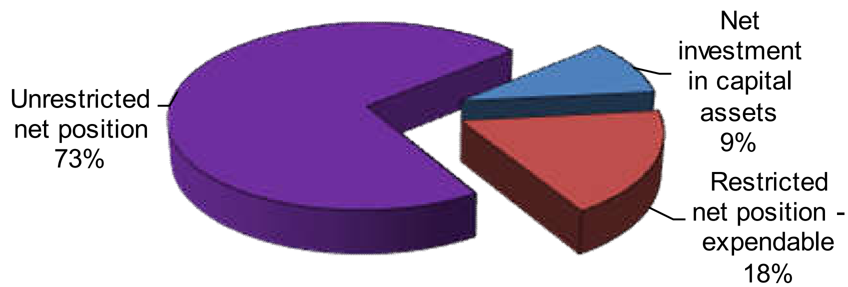
Description	2018	2017	Change
Current and other assets	$ 5,945,087	$ 5,710,260	$ 234,827
Capital assets, net	374,371	533,355	(158,984)
Total assets	6,319,458	6,243,615	75,843
Deferred outflows related to pension	531,892	866,090	(334,198)
Total deferred outflows of resources	531,892	866,090	(334,198)
Current liabilities	322,532	388,454	(65,922)
Long-term liabilities	1,868,809	2,184,166	(315,357)
Total liabilities	2,191,341	2,572,620	(381,279)
Deferred inflows related to pension	714,633	729,244	(14,611)
Total deferred inflows of resources	714,633	729,244	(14,611)
Net position			
Net investment in capital assets	374,371	533,355	(158,984)
Restricted net position	705,576	710,761	(5,185)
Unrestricted net position	2,865,429	2,563,725	301,704
Total net position	$ 3,945,376	$ 3,807,841	$ 137,535

Investments in capital assets comprise about 6% of the Library's total assets and about 9% 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:

Net Position (continued)

Library's Net Position as of December 31, 2018



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

	2018	2017	Change
Revenues:			
Program revenues			
Intergovernmental	$ 3,990,815	$ 3,903,773	$ 87,042
Grants	680,807	1,558,289	(877,482)
Charges for services	68,014	76,662	(8,648)
Gifts	18,463	42,902	(24,439)
General revenues			
Interest income	58,347	47,558	10,789
Market loss on investments - net	(6,082)	(20,104)	14,022
Other income	79,001	93,780	(14,779)
Total revenues	4,889,365	5,702,860	(813,495)
Expenses:			
Program expenses			
Salaries including related taxes and benefits	2,620,237	2,721,013	(100,776)
Grant expenditures	787,898	1,800,660	(1,012,762)
Books, periodicals and videos	446,591	441,202	5,389
Depreciation	188,826	252,528	(63,702)
Other	708,278	645,063	63,215
Total expenses	4,751,830	5,860,466	(1,108,636)
Decrease in net position	137,535	(157,606)	295,141
Net position January 1	3,807,841	3,965,447	(157,606)
Net position December 31	$ 3,945,376	$ 3,807,841	$ 137,535

Statement of Activities (continued)

Grant revenues decreased by $877,482 due to a decrease in RLTA and E-Rate revenue.

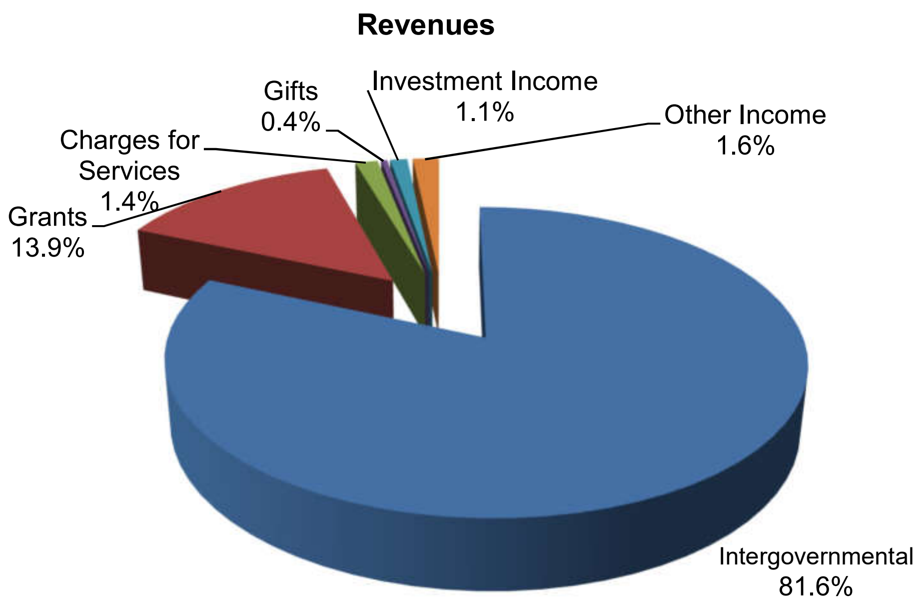
Grant expenditures decreased by $1,012,762 due to decrease in RLTA and E-Rate expense.

Salaries and related expenses decreased due to a decrease in health insurance. Books, periodicals, and videos expense is consistent with prior year. Depreciation expense decreased due to assets becoming fully depreciated in the prior year. Other expense items increased due to additional contract services.

Financial Analysis of the Organization as a Whole

Revenue from the state was consistent in 2018 with prior year in the Regional Library Basic Support System funds.

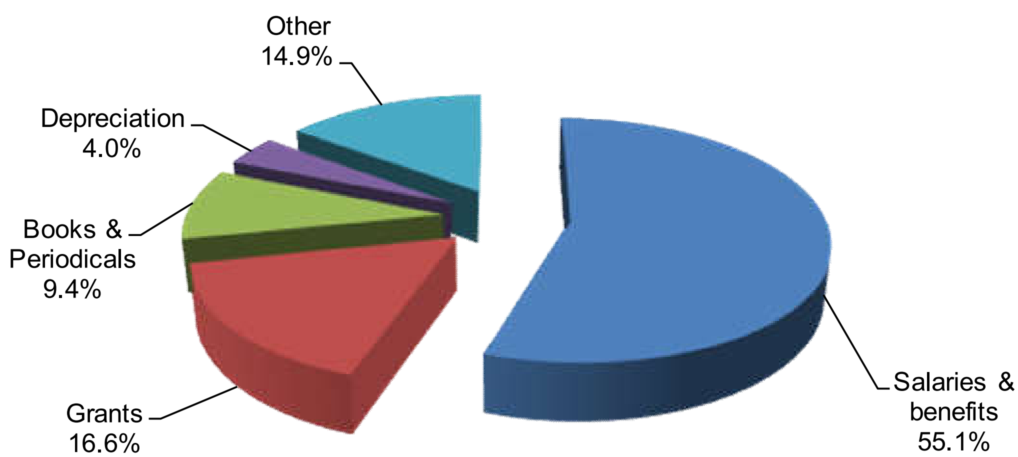
The Library's revenue is substantially received from six sources; city, county, state, federal grants/special projects, investment income and other (fees and charges). The following graph illustrates the major sources of these revenues and related percentages:



Financial Analysis of the Organization as a Whole (continued)

For the year ended December 31, 2018, the Library incurred operating expenses of $4.75 million. The following graph illustrates the major expense groups and the percent of the total expense each represents for the year ending December 31, 2018:

Expenses



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, 2018, 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, 2018

Description	Beginning Balance	Net additions / (deletions)	Ending Balance
Vehicles	$ 20,488	$ -	$ 20,488
Furniture and equipment	2,171,397	29,842	2,201,239
Books	4,174,958	-	4,174,958
III automation system	114,040	-	114,040
	6,480,883	29,842	6,510,725
Depreciation and amortization	5,947,528	188,826	6,136,354
Total	$ 533,355	$ (158,984)	$ 374,371

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, 2018

PIONEERLAND LIBRARY SYSTEM
STATEMENT OF NET POSITION
December 31, 2018

ASSETS	
Cash and cash equivalents	$ 3,358,421
Investments	2,512,991
Receivables	6,017
Prepaid expenses	67,658
Capital assets, net of accumulated depreciation	
Vehicle	-
Furniture and equipment	269,662
Books	104,709
Automation	-
TOTAL ASSETS	6,319,458
DEFERRED OUTFLOWS OF RESOURCES	
Related to pensions	531,892
TOTAL DEFERRED OUTFLOWS OF RESOURCES	531,892
LIABILITIES	
Accounts payable	21,747
Accrued wages	74,440
Accrued payroll taxes	11,757
Unearned revenue	214,588
Long-term liability	
Compensated absences	115,771
Net pension liability	1,753,038
TOTAL LIABILITIES	2,191,341
DEFERRED INFLOWS OF RESOURCES	
Related to pensions	714,633
TOTAL DEFERRED INFLOWS OF RESOURCES	714,633
NET POSITION	
Net investment in capital assets	374,371
Restricted net position-expendable	705,576
Unrestricted net position	2,865,429
TOTAL NET POSITION	$ 3,945,376

See notes to financial statements.

PIONEERLAND LIBRARY SYSTEM
STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2018

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Pioneerland Library System	$ 4,751,830	$ 68,014	$ 4,690,085	$ -	$ 6,269
Permanent endowment					
General revenue					
Other income					79,001
Investment gain - net					52,265
Total general revenue					131,266
Change in net position					137,535
Net position, Beginning					3,807,841
Net position, Ending					$ 3,945,376

See notes to financial statements.

PIONEERLAND LIBRARY SYSTEM
BALANCE SHEET
GENERAL FUND
December 31, 2018

ASSETS	
Cash and cash equivalents	$ 3,358,421
Investments	2,512,991
Accounts receivable	6,017
Prepaid expenses	67,658
TOTAL ASSETS	$ 5,945,087
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	$ 21,747
Accrued salaries	74,440
Accrued payroll tax	11,757
Unearned revenue	214,588
Total liabilities	322,532
Fund Balance	
Nonspendable	67,658
Committed	705,576
Assigned	4,833,552
Unassigned	15,769
Total fund balance	5,622,555
TOTAL LIABILITIES AND FUND BALANCE	$ 5,945,087

See notes to financial statements.

PIONEERLAND LIBRARY SYSTEM
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
December 31, 2018

Total fund balances-general fund	$ 5,622,555
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	6,510,725
Less accumulated depreciation	(6,136,354)
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	531,892
Deferred inflows of resources related to pensions	(714,633)
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	(1,753,038)
Total net position - government activities	$ 3,945,376

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, 2018

REVENUES	
Intergovernmental	
State	$ 469,820
Counties	1,582,744
Cities	1,924,856
Gifts	18,463
Interest income	58,347
Charges and fines	37,720
Copy machine, fax and equipment rental	27,996
Book sales	2,298
Grants	680,807
Other	79,001
Market loss on investments - net	(6,082)
TOTAL REVENUES	4,875,970
EXPENDITURES	
Current	
Salaries and wages	2,080,183
Payroll tax	141,810
Employee benefits	380,619
Vehicle operation	73,287
Telephone and line charges	7,007
Postage and shipping	4,722
Equipment maintenance	19,411
Supplies	78,193
Promotion and programming	39,276
Mileage and meetings	8,556
Professional fees and memberships	20,489
Insurance	22,618
Continuing education	21,359
Central services	284,749
Grant expenditures	787,898
Rent	40,660
Sales tax	1,980
Capital outlay	
Automation system	85,197
Equipment	30,616
Books	446,591
TOTAL EXPENDITURES	4,575,221
CHANGE IN FUND BALANCE	300,749
FUND BALANCE, BEGINNING OF YEAR	5,321,806
FUND BALANCE, END OF YEAR	$ 5,622,555

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, 2018

Total net change in fund balance	$ 300,749
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	29,842
Depreciation expense	(188,826)
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	13,395
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	(17,625)
Change in net position - governmental activities	$ 137,535

See notes to financial statements.

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-five-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.

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.

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, 2018, are summarized as follows:

Cash on deposit	$ 3,358,421
Investments	2,512,991
	$ 5,871,412

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.

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, 2018, the Library's deposits had a carrying amount of $3,358,421 and a bank balance of $3,266,088 along with a money market balance of $110,052. 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.

		Investments Maturities in Years		
	Fair Value	Less than 1	1-5 Years	6+ Years
State and Local Government Bonds	$ 630,897	$ 99,536	$ 531,361	$ -
Federal National Mortgage Assn	268,146	198,842	69,304	-
Federal Home Loan Bank	459,510	39,770	419,740	-
Federal Home Loan Mortgage Corp	222,001	98,931	123,070	-
Government National Mortgage Assn	24,565	-	-	24,565
Freddie Mac	50,452	-	21,962	28,490
Fannie Mae	54,114	-	-	54,114
Federal Farm Credit Bank	296,241	49,738	246,503	-
United States Treasury Notes	507,065	307,869	199,196	-
	$ 2,512,991	$ 794,686	$ 1,611,136	$ 107,169

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	$ 630,897	25%
Federal Home Loan Mortgage Corp	222,001	9%
Federal National Mortgage Assn	268,146	11%
Federal Farm Credit Bank	296,241	12%
United States Treasury Notes	507,065	20%
Federal Home Loan Bank	459,510	18%

NOTE 3 CAPITAL ASSETS

	Beginning Balance	Additions	Deletions	Ending Balance
Vehicles	$ 20,488	$ -	$ -	$ 20,488
Furnishings and equipment	2,171,397	29,842	-	2,201,239
Books	4,174,958	-	-	4,174,958
III Automation System	114,040	-	-	114,040
	6,480,883	29,842	-	6,510,725
Depreciation and amortization	5,947,528	188,826	-	6,136,354
Total	$ 533,355	$ (158,984)	$ -	$ 374,371

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, 2018, are vacation $46,562 and sick leave $69,209. The Board has accrued a liability of $115,771 for these amounts.

NOTE 5 FUND BALANCE CLASSIFICATION

At December 31, 2018, 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	182,291	-	-	-	182,291
Computer & Equipment	228,559	-	7,329	-	221,230
ILS & Hard/Software	277,911	2,144	-	-	280,055
Total Committed	$ 710,761				$ 705,576
Assigned					
Yellow Medicine Co. Extensioı	$ 51,989	$ 5,572	$ 2,509	$ -	$ 55,052
Legacy	-	130,801	130,801	-	-
Telecom Grant	1,615,293	441,226	444,118	-	1,612,401
PLS	932,249	529,785	442,108	-	1,019,926
Automation	33,439	281,144	296,305	-	18,278
Spicer Endowment	30,799	6,217	7,012	-	30,004
Mardag Foundation	6,845	-	4,023	-	2,822
New London Endowment	1,264	6	456	-	814
Willmar Endowment	60,428	410	4,000	-	56,838
Clara City	26,519	72,415	61,365	-	37,569
Maynard	10,257	32,388	30,617	-	12,028
Montevideo	120,970	204,089	181,085	-	143,974
Milan	17,589	30,200	31,872	-	15,917
Appleton	24,348	121,245	116,636	-	28,957
Dawson	65,439	96,219	111,114	-	50,544
Graceville	10,212	56,150	58,228	-	8,134
Ortonville	33,329	120,460	120,023	-	33,766
Madison	73,803	117,183	129,169	-	61,817
Canby	63,787	116,020	124,853	-	54,954
Kerkhoven	23,325	45,229	38,275	-	30,279
Benson	38,589	153,010	152,372	-	39,227
Atwater	58,964	48,944	48,685	-	59,223
Bird Island	8,524	56,508	43,454	-	21,578
Brownton	36,119	34,174	27,830	-	42,463
Cosmos	122,438	57,186	38,879	-	140,745
Dassel	47,883	49,087	51,369	-	45,601
Glencoe	51,869	143,331	144,021	-	51,179
Grove City	50,446	42,505	36,665	-	56,286
Hutchinson	124,974	276,691	273,598	-	128,067
Lake Lillian/Raymond	25,458	88,940	79,776	-	34,622
Litchfield	156,974	268,442	263,217	-	162,199
Renville	22,343	61,745	59,370	-	24,718
Spicer/New London	18,212	107,863	95,517	-	30,558
Willmar	373,788	617,836	537,906	-	453,718
Winsted	14,173	37,517	37,322	-	14,368
Hector	24,064	55,639	49,636	-	30,067

NOTE 5 FUND BALANCE CLASSIFICATION (continued)

	Beginning Balance	Revenues	Expenditures	Adjustments	Ending Balance
Assigned					
Granite Falls	$ 107,349	$ 130,048	$ 113,991	$ -	$ 123,406
Olivia	75,539	114,537	126,842	-	63,234
Fairfax	23,121	66,926	51,828	-	38,219
Total Assigned	$ 4,582,711				$ 4,833,552

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 the Coordinated Plan. Coordinated Plan members are covered by Social Security.

B. 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. 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 Plan members. Members hired prior to July 1, 1989, received the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated Plan members is 1.2% for each of the first ten years of service and 1.7% for each additional year. The rates are 2.2% and 2.7%, respectively, for Basic members. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service, and 2.7% for Basic members. The accrual rates for former MERF members is 2.0% for each of the first ten years of service and 2.5% for each additional year. 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.

Beginning January 1, 2019, benefit recipients will receive a future annual increase equal to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

NOTE 6 DEFINED BENEFIT PENSION PLAN (continued)

C. 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

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2018; the Pioneerland Library System was required to contribute 7.50% for Coordinated Plan members. The Pioneerland Library System's contributions to the General Employees Fund for the year ended December 31, 2018 were $156,802. The Pioneerland Library System's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. General Employees Fund Pension Cost

At December 31, 2018, Pioneerland Library System reported a liability of $1,753,038 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 $16 million to the fund in 2018. 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 $57,438. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, Pioneerland Library System's proportion share was .0316%, which was a decrease of .0008% from is proportion share measured at June 30, 2017.

Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of a 90% funded ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.

For the year ended December 31, 2018, Pioneerland Library System recognized pension expense of $101,665 for its proportionate share of the General Employees Plan's pension expense. In addition, Pioneerland Library System recognized an additional $13,395 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

At December 31, 2018, 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 of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 47,522	$ 51,938
Changes in actuarial assumptions	170,109	200,386
Difference between projected and actual investment earnings	229,014	409,754
Changes in proportion	12,180	52,555
Contributions subsequent to the measurement date	73,067	-
Total	$ 531,892	$ 714,633

NOTE 6 DEFINED BENEFIT PENSION PLAN (continued)

D. 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 $73,067 will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. 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
2019	$ 41,301
2020	(103,340)
2021	(157,180)
2022	(36,589)

E. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Salary Growth	3.25% after 26 years of service
Investment Rate of Return	7.50%

The total pension liability for each of the defined benefit cost-sharing plans was determined by an actuarial valuation as of June 30, 2018, using the entry age normal actuarial cost method. Inflation is assumed to be 2.50% for the General Employees. Salary growth assumptions in the General Employees Plan decrease in annual increments from 11.25% after one year of service, to 3.25% after 26 years of service.

Mortality rates are based on RP 2014 tables. The tables are adjusted slightly to fit PERA's experience. Actuarial assumptions are reviewed every four to six years. The most recent six-year experience study in the General Employees Plan was completed in 2015. Economic assumptions were updated in 2014 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

General Employees Fund:

- The morality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

NOTE 6 DEFINED BENEFIT PENSION PLAN (continued)

E. 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	36%	5.10%
International Stocks	17%	5.30%
Bonds	20%	0.75%
Alternative Assets	25%	5.90%
Cash	2%	0.00%
	100%	

F. Discount Rate

The discount rate used to measure the total pension liability in 2018 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 assumptions, 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.

G. 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 (6.50%)	Discount Rate (7.50%)	1% Increase in Discount Rate (8.50%)
Entity's proportionate share of the GERF net pension liability	$ 2,848,912	$ 1,753,038	$ 848,426

H. 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, 2018, was $40,660.

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:

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 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:

2019	$ 441,144
2020	220,572

NOTE 10 SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 8, 2019, 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, 2018

	Budget Amounts			Over (Under)
	Original	Final	Actual	Final Budget
REVENUES				
Intergovernmental				
State	$ 453,500	$ 453,500	$ 469,820	$ 16,320
Counties	1,582,561	1,582,561	1,582,744	183
Cities	1,927,377	1,927,377	1,924,856	(2,521)
Gifts	26,720	26,720	18,463	(8,257)
Interest	1,300	1,300	58,347	57,047
Charges, fines	42,745	42,745	37,720	(5,025)
Copy machine, fax and equipment rental	19,465	19,465	27,996	8,531
Book sales	1,500	1,500	2,298	798
Grants	489,930	489,930	680,807	190,877
Other	53,140	53,140	79,001	25,861
Market loss	-	-	(6,082)	(6,082)
TOTAL REVENUES	4,598,238	4,598,238	4,875,970	277,732
EXPENDITURES				
Current				
Salaries and wages	2,242,136	2,242,136	2,080,183	(161,953)
Payroll tax	327,050	327,050	141,810	(185,240)
Employee benefits	254,358	254,358	380,619	126,261
Vehicle operation	75,750	75,750	73,287	(2,463)
Telephone and line charges	7,465	7,465	7,007	(458)
Postage and shipping	8,130	8,130	4,722	(3,408)
Equipment maintenance	20,250	20,250	19,411	(839)
Supplies	48,850	48,850	78,193	29,343
Promotion and programming	33,750	33,750	39,276	5,526
Mileage and meetings	11,000	11,000	8,556	(2,444)
Memberships and professional fees	14,600	14,600	20,489	5,889
Insurance	28,143	28,143	22,618	(5,525)
Continuing education	32,800	32,800	21,359	(11,441)
Central services	235,870	235,870	284,749	48,879
Grant expenditures	763,981	763,981	787,898	23,917
Rent	40,660	40,660	40,660	-
Sales tax	1,780	1,780	1,980	200
Capital outlay				
Automation system	84,284	84,284	85,197	913
Equipment	43,850	43,850	30,616	(13,234)
Books	467,426	467,426	446,591	(20,835)
TOTAL EXPENDITURES	4,742,133	4,742,133	4,575,221	(166,912)
CHANGE IN FUND BALANCE	(143,895)	(143,895)	300,749	$ 444,644
FUND BALANCE BEGINNING OF YEAR	5,321,806	5,321,806	5,321,806	
FUND BALANCE END OF YEAR	$ 5,177,911	$ 5,177,911	$ 5,622,555	

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

Fiscal Year Ending	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%
June 30, 2018	0.0316%	$ 1,753,038	$ 57,438	$ 1,810,476	$ 2,123,853	82.5%	79.5%

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

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

Schedule of Employer Contributions

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
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%
December 31, 2018	$ 156,802	$ 156,802	$ -	$ 2,090,693	7.50%

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.

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

2018 Changes
Changes in Actuarial Assumptions:

- The morality projection scale was changed from MP-2015 to MP-2017.

- The assumed benefit increase was changed from 1.00% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

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, 2018, 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 8, 2019.

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*.

2630 1st Street S
PO Box 362
Willmar, MN 56201
phone 320.235.3727
e-mail info@wecpas.net
fax 320.235.1641
515 Highway 7 E
PO Box 407
Montevideo, MN 56265
phone 320.269.7380
e-mail info@wecpas.net
fax 320.269.8176

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 8, 2019

PIONEERLAND LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
Year Ended December 31, 2018

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

I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (continued)

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

I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (continued)

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