

PLUM CREEK LIBRARY SYSTEM
AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2017

Conway, Deuth & Schmiesing, PLLP
Certified Public Accountants & Consultants
Willmar, Minnesota

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PLUM CREEK LIBRARY SYSTEM

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INDEPENDENT AUDITOR'S REPORT

The Governing Board
Plum Creek Library System
Worthington, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Plum Creek Library System, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Library System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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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 the major fund of the Plum Creek Library System, as of June 30, 2017, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Partial Comparative Information

We have previously audited the Library System's 2016 financial statements, and we expressed unmodified audit opinions on those audited financial statements in our report dated October 19, 2016. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedules of Proportionate Share of the Net Pension Liability and Employer Contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library System's basic financial statements. The statements listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2017, on our consideration of the Library System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Library System's internal control over financial reporting and compliance.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants & Consultants
Willmar, Minnesota

November 1, 2017

REQUIRED SUPPLEMENTARY INFORMATION

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PLUM CREEK LIBRARY SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the basic financial statements of the Plum Creek Library System (the "Library System") presents a discussion and analysis of the Library System's financial performance during the fiscal year ended June 30, 2017. Please read it in conjunction with the Library System's basic financial statements following this section.

Financial Highlights

- Plum Creek Library System's total net position decreased by \$36,832 from June 30, 2016.
- General Fund balance decreased by (\$1,298) from the prior year. The decrease was primarily due to a decrease in Charges for Services Revenue.
- Total governmental revenues increased by \$40,921 in comparison to fiscal year 2016 primarily due to an increase in Operating Grants and Contributions.
- Total governmental expenditures increased by \$56,210 in comparison to fiscal year 2016 primarily due to an increase in Service Expenditures.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Library System as a whole and present a longer-term view of the Library System's finances. Fund financial statements are presented after the Statement of Activities. Fund financial statements also report the Library System's operations in more detail than the organization-wide statements by providing information about the Library System's fund. The notes to the basic financial statements provide information that is essential to a full understanding of the data provided in the organization-wide and fund financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Plum Creek Library System as a Whole: Statement of Net Assets and Statement of Activities

Our analysis of the Plum Creek Library System begins with the Statement of Net Position and the Statement of Activities. One of the most important questions asked about the Library System's finances is, "Is the Library System as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities both report information about the Library System as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Library System's net position and changes in them. You can think of the Library System's net position—the difference between assets and liabilities—as one way to measure the Library System's financial health. Over time, increases or decreases in the Library System's net position is one indicator of whether the Library System's financial health is improving or deteriorating.

You will need to consider other nonfinancial factors, however, to assess the overall health of the Plum Creek Library System.

PLUM CREEK LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

Plum Creek Library System's Most Significant Fund: Fund Financial Statements

Our analysis of the Plum Creek Library System's major fund begins with the fund financial statements.

Governmental Funds - The Library System's services are included in this type of fund, which generally focuses on 1) how cash and other financial assets that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the Library System's activities. Because this information does not encompass the additional long-term focus of the organization-wide statements, we provide additional information (reconciliation schedules) immediately following the governmental fund statements that explain the relationship (or differences) between these two types of financial statement presentations.

The governmental fund financial statements can be found on pages 10-14 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the organization-wide and fund financial statements. The notes to the financial statements can be found on pages 15-27 of this report.

Statement of Net Position

The Library System's net position decreased from a year ago. Our analysis focuses on the net position of the Library System's governmental activities (Table 1).

Table 1 Condensed Statement of Net Position			
	Governmental Activities		Change
	2017	2016	
Current and Other Assets	\$ 327,613	\$ 376,296	\$ (48,683)
Net Capital Assets	85,791	86,766	(975)
Deferred Outflows of Resources Related to Pensions	209,113	44,719	164,394
Total Assets and Deferred Outflows of Resources	<u>\$ 622,517</u>	<u>\$ 507,781</u>	<u>\$ 114,736</u>
Current Liabilities	\$ 175,123	\$ 222,508	\$ (47,385)
Long-Term Liabilities	488,831	288,008	200,823
Total Liabilities	<u>663,954</u>	<u>510,516</u>	<u>153,438</u>
Deferred Inflows of Resources Related to Pensions	45,713	47,583	(1,870)
Net Position			
Net Investment in Capital Assets	85,791	86,766	(975)
Restricted E-Rate	32,350	31,773	577
Unrestricted	(205,291)	(168,857)	(36,434)
Total Net Position	<u>(87,150)</u>	<u>(50,318)</u>	<u>(36,832)</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 622,517</u>	<u>\$ 507,781</u>	<u>\$ 114,736</u>

PLUM CREEK LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Activities

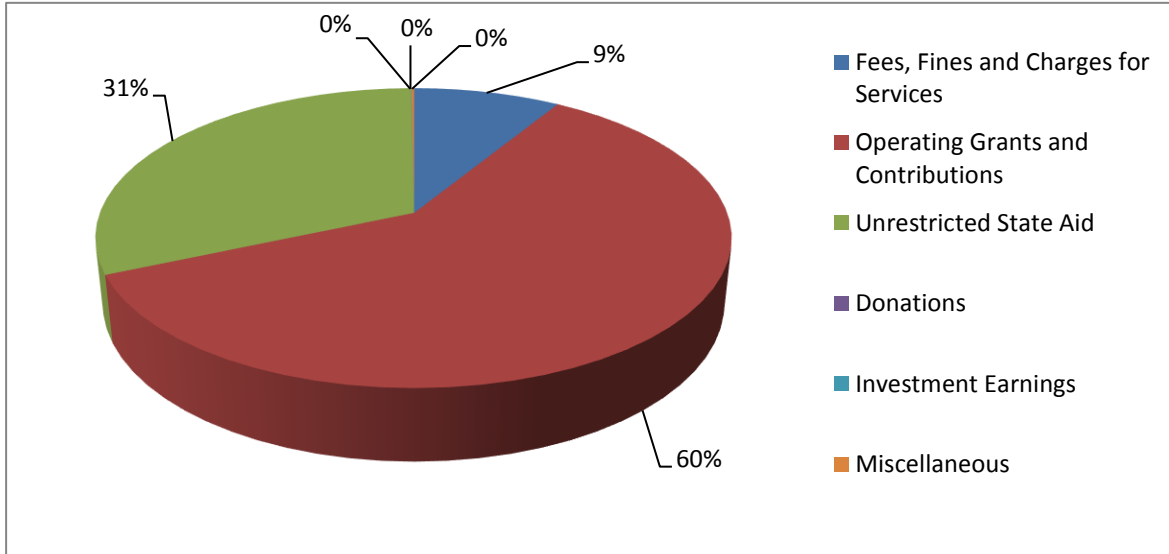
Net position of the Library System's governmental activities decreased (\$36,832) as a result of current year operations. Table 2 presents the key elements of the decrease.

Table 2 Condensed Statement of Activities			
	Governmental Activities		Change
	2017	2016	
REVENUES			
Program Revenues			
Fees, Fines and Charges for Services	\$ 97,691	\$ 126,143	\$ (28,452)
Operating Grants and Contributions	667,085	598,002	69,083
General Revenues			
Unrestricted State Aid	349,847	350,107	(260)
Donations		1,006	(1,006)
Investment Earnings	309	331	(22)
Miscellaneous	1,837	259	1,578
Total Revenues	<u>1,116,769</u>	<u>1,075,848</u>	40,921
EXPENSES			
Administration	249,648	252,493	(2,845)
Programs			
Cataloging and Inter Library Loan	135,431	119,462	15,969
Delivery System	64,863	58,799	6,064
Automation	177,177	158,832	18,345
Outreach	46,133	58,418	(12,285)
Services	336,822	304,203	32,619
Regional Legacy	120,361	87,325	33,036
Multi-Regional Legacy	17,127	19,323	(2,196)
State Legacy	6,039	7,998	(1,959)
Total Expenses	<u>1,153,601</u>	<u>1,066,853</u>	86,748
Change in Net Position	<u>(36,832)</u>	<u>8,995</u>	<u>(45,827)</u>
NET POSITION, BEGINNING OF YEAR	<u>(50,318)</u>	<u>(59,313)</u>	8,995
NET POSITION, END OF YEAR	<u>\$ (87,150)</u>	<u>\$ (50,318)</u>	<u>\$ (36,832)</u>

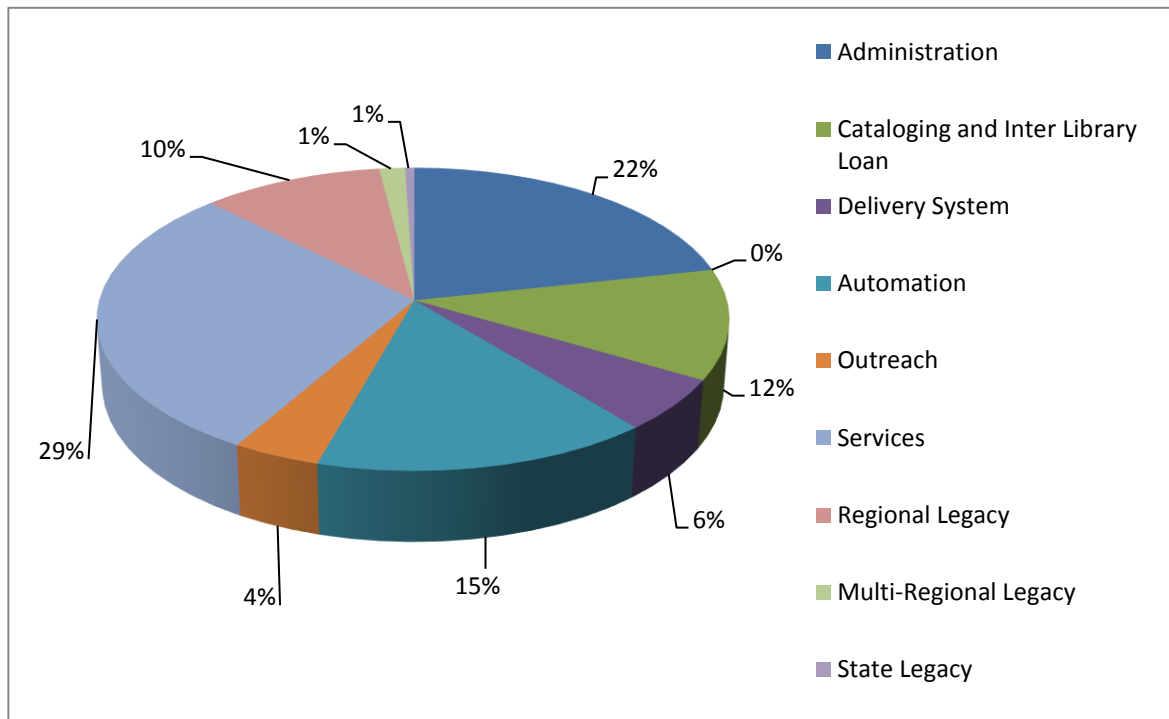
PLUM CREEK LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Activities (Cont'd)

Revenues - The following chart visually illustrates Library System's revenue by source.



Expenditures - The following chart visually illustrate the Library System's expenditures by source.



Financial Analysis of the General Fund Activity

General Fund - The decrease in the Library System's General Fund Balance was (\$1,298) for 2017. The decrease is from less revenues from charges for services than budgeted.

PLUM CREEK LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

General Fund Budgetary Highlights

Over the course of the year, the Library System did not revise the budget. The General Fund final budget included revenues and expenditures budgeted at the same amount. Actual revenues were \$1,298 under expenditures. Actual revenues and expenditures were less than final budgeted amounts.

Capital Assets

At the end of 2017, the Library System had \$260,855 invested in a broad range of capital assets. Refer to Note 5 of the Notes to the Financial Statements for a schedule showing the Library System's capital asset activity.

Long-Term Liabilities

At year-end, the Library System had \$26,020 in compensated absences payable. Total pension benefits payable totaled \$462,811 at June 30, 2017. The Library System had no bonds or notes outstanding. Refer to Note 6 of the Notes to the Financial Statements for a schedule showing the Library System's long-term debt activity.

Economic Factors and Next Year's Budget

The Library System is dependent on the State of Minnesota for the vast majority of its funding. The continuation of this funding is dependent on the actions taken by the Minnesota legislature in the future.

Contacting the Plum Creek Library System's Management

This financial report is designed to provide a general overview of Plum Creek Library System's finances and to demonstrate the Library System's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Plum Creek Library System at 290 S. Lake Street, PO Box 697, Worthington, Minnesota 56187.

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BASIC FINANCIAL STATEMENTS

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PLUM CREEK LIBRARY SYSTEM

STATEMENT OF NET POSITION
JUNE 30, 2017

WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2016

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Cash on Hand	\$ 50	\$ 50
Cash in Bank	249,948	286,289
Accounts Receivable		
Libraries and Counties, Outreach and Other Charges	11,881	20,059
Due From Other Governments	34,913	34,938
Prepaid Items	30,821	34,960
Capital Assets, Net of Accumulated Deprecation	85,791	86,766
Total Assets	<u>413,404</u>	<u>463,062</u>
 Deferred Outflows of Resources		
Related to Pensions	<u>209,113</u>	<u>44,719</u>
 Total Assets and Deferred Outflows of Resources	<u><u>\$ 622,517</u></u>	<u><u>\$ 507,781</u></u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Liabilities		
Current Liabilities		
Accounts Payable	\$ 9,106	\$ 15,368
Accrued Wages	7,540	7,253
Unearned Revenue	158,477	199,887
Long-Term Liabilities		
Due in More than One Year	488,831	288,008
Total Liabilities	<u>663,954</u>	<u>510,516</u>
 Deferred Inflows of Resources		
Related to Pensions	45,713	47,583
 Net Position		
Net Investment in Capital Assets	85,791	86,766
Restricted E-Rate	32,350	31,773
Unrestricted	(205,291)	(168,857)
Total Net Position	<u>(87,150)</u>	<u>(50,318)</u>
 Total Liabilities, Deferred Inflows of Resources and Net Position	<u><u>\$ 622,517</u></u>	<u><u>\$ 507,781</u></u>

See Accompanying Notes to the Financial Statements

PLUM CREEK LIBRARY SYSTEM

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Totals	
					2017	2016
GOVERNMENTAL ACTIVITIES						
Administration	\$ 249,648	\$ 7,081	\$	\$	\$ (242,567)	\$ (239,373)
Programs						
Cataloging and Inter Library Loan	135,431				(135,431)	(119,462)
Delivery System	64,863				(64,863)	(58,799)
Automation	177,177		199,817		22,640	39,882
Outreach	46,133	41,471			(4,662)	4,122
Services	336,822	49,139	329,909		42,226	39,290
Regional Legacy	120,361		119,084		(1,277)	505
Multi-Regional Legacy	17,127		12,236		(4,891)	(8,873)
State Legacy	6,039		6,039			
Total Governmental Activities	\$ 1,153,601	\$ 97,691	\$ 667,085	\$ 0	(388,825)	(342,708)
GENERAL REVENUES						
State Aid Not Restricted to Specific Purposes					349,847	350,107
Donations						1,006
Investment Earnings					309	331
Miscellaneous					1,837	259
Total General Revenues					351,993	351,703
Change in Net Position					(36,832)	8,995
NET POSITION, BEGINNING OF YEAR					(50,318)	(59,313)
NET POSITION, END OF YEAR					\$ (87,150)	\$ (50,318)

See Accompanying Notes to the Financial Statements

PLUM CREEK LIBRARY SYSTEM

BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2017

WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2016

	General	
	<u>2017</u>	<u>2016</u>
ASSETS		
Cash on Hand	\$ 50	\$ 50
Cash in Bank	249,948	286,289
Accounts Receivable		
Libraries and Counties, Outreach and Other Charges	11,881	20,059
Due From Other Governments	34,913	34,938
Prepaid Items	<u>30,821</u>	<u>34,960</u>
Total Assets	<u>\$ 327,613</u>	<u>\$ 376,296</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts Payable	\$ 9,106	\$ 15,368
Accrued Wages	7,540	7,253
Unearned Revenue	158,477	199,887
Total Liabilities	<u>175,123</u>	<u>222,508</u>
Fund Balance		
Nonspendable	30,821	34,960
Restricted E-Rate	32,350	31,773
Unassigned	89,319	87,055
Total Fund Balance	<u>152,490</u>	<u>153,788</u>
Total Liabilities and Fund Balance	<u>\$ 327,613</u>	<u>\$ 376,296</u>

See Accompanying Notes to the Financial Statements

PLUM CREEK LIBRARY SYSTEM

RECONCILIATION OF THE GOVERNMENTAL FUND
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2017
WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2016

	<u>2017</u>	<u>2016</u>
Total Fund Balances - Governmental Fund	\$ 152,490	\$ 153,788
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 the governmental fund.		
Capital Assets	260,855	284,346
Less: Accumulated Depreciation	(175,064)	(197,580)
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	209,113	44,719
Deferred Inflows of Resources Related to Pensions	(45,713)	(47,583)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the fund.		
Pension Benefits Payable	(462,811)	(253,944)
Compensated Absences	(26,020)	(34,064)
	<u> </u>	<u> </u>
Total Net Position - Governmental Activities	<u>\$ (87,150)</u>	<u>\$ (50,318)</u>

PLUM CREEK LIBRARY SYSTEM

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUND
 YEAR ENDED JUNE 30, 2017
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016

	General	
	2017	2016
REVENUES		
Intergovernmental	\$ 566,939	\$ 542,369
Charges for Services	63,027	82,856
Invoiced to Counties	279,966	252,115
Automation	120,084	112,730
Delivery	43,225	40,895
Miscellaneous	43,528	44,883
Total Revenues	<u>1,116,769</u>	<u>1,075,848</u>
EXPENDITURES		
Current		
Administration	239,080	243,372
Programs		
Cataloging and Inter Library Loan	124,780	120,419
Delivery System	61,029	59,144
Automation	163,098	158,535
Outreach	43,321	58,488
Services	336,822	304,203
Regional Legacy	119,083	87,437
Multi-Regional Legacy	16,275	19,390
Statewide Legacy	6,039	7,998
Total Program Expenditures	<u>870,447</u>	<u>815,614</u>
Capital Outlay		
Administration		2,067
Programs		
Automation	8,540	804
Total Capital Outlay	<u>8,540</u>	<u>2,871</u>
Total Expenditures	<u>1,118,067</u>	<u>1,061,857</u>
Net Change in Fund Balance	(1,298)	13,991
FUND BALANCE, BEGINNING OF YEAR	<u>153,788</u>	<u>139,797</u>
FUND BALANCE, END OF YEAR	<u>\$ 152,490</u>	<u>\$ 153,788</u>

See Accompanying Notes to the Financial Statements

PLUM CREEK LIBRARY SYSTEM

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016

	<u>2017</u>	<u>2016</u>
Total Net Change in Fund Balance - Governmental Fund	\$ (1,298)	\$ 13,991
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are reported in the governmental fund 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	8,538	2,871
Depreciation Expense	(9,513)	(11,643)
Disposal of Capital Assets	(37,001)	
Accumulated Depreciation Related to Disposed Capital Assets	37,001	
In the Statement of Activities, certain operating expenses - pension and compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).		
	<u>(34,559)</u>	<u>3,776</u>
Change in Net Position - Governmental Activities	<u>\$ (36,832)</u>	<u>\$ 8,995</u>

PLUM CREEK LIBRARY SYSTEM

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 575,635	\$ 575,635	\$ 566,939	\$ (8,696)
Charges for Services	83,229	83,229	63,027	(20,202)
Invoiced to Counties	252,000	252,000	279,966	27,966
Automation	119,490	119,490	120,084	594
Delivery	42,500	42,500	43,225	725
Miscellaneous	46,406	46,406	43,528	(2,878)
Total Revenues	<u>1,119,260</u>	<u>1,119,260</u>	<u>1,116,769</u>	<u>(2,491)</u>
EXPENDITURES				
Current				
Administration	243,000	243,000	239,080	(3,920)
Programs				
Cataloging and Inter Library Loan	123,595	123,595	124,780	1,185
Delivery System	59,823	59,823	61,029	1,206
Automation	165,276	165,276	163,098	(2,178)
Outreach	53,325	53,325	43,321	(10,004)
Services	317,000	317,000	336,822	19,822
Regional Legacy	110,358	110,358	119,083	8,725
Multi-Regional Legacy	24,504	24,504	16,275	(8,229)
Statewide Legacy	8,000	8,000	6,039	(1,961)
Total Programs	<u>861,881</u>	<u>861,881</u>	<u>870,447</u>	<u>8,566</u>
Capital Outlay				
Administration	4,339	4,339		(4,339)
Programs				
Automation	10,040	10,040	8,540	(1,500)
Total Capital Outlay	<u>14,379</u>	<u>14,379</u>	<u>8,540</u>	<u>(5,839)</u>
Total Expenditures	<u>1,119,260</u>	<u>1,119,260</u>	<u>1,118,067</u>	<u>(1,193)</u>
Net Change in Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	(1,298)	<u>\$ (1,298)</u>
FUND BALANCE, BEGINNING OF YEAR			<u>153,788</u>	
FUND BALANCE, END OF YEAR			<u>\$ 152,490</u>	

See Accompanying Notes to the Financial Statements

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PLUM CREEK LIBRARY SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Plum Creek Library System (the "Library System") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America. The more significant of the government's accounting policies are described below.

A. REPORTING ENTITY

The Library System was created as a public library service on May 28, 1974, by the act of contracting with various public libraries in its region to provide them with expanded library services, with the additional purpose of furthering the public interest by providing the potential for extending public library services into areas without such services; it is essentially a federation of public libraries.

The financial statements present the Library System and its component units. The Library System includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate organizations for which the Library System is financially accountable, or for which the exclusion of the component unit would render the financial statements of the Library System misleading.

The criteria used to determine if the Library System is financially accountable for a component unit includes whether or not 1) the Library System appoints the voting majority of the potential component unit's governing body and is able to impose its will on the potential component unit or is in a relationship of financial benefit or burden with the potential component unit, or 2) the potential component unit is fiscally dependent on and there is a potential for the potential component unit to provide specific financial benefits to, or impose specific financial burdens on, the Library System.

As a result of applying the component unit definition criteria above, it has been determined the Library System has no component units.

B. ORGANIZATION-WIDE AND FUND FINANCIAL STATEMENTS

The organization-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) display information about the reporting organization as a whole. These statements include all the financial activities of the Library System.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is 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. Revenues that are not classified as program revenues are presented as general revenues.

PLUM CREEK LIBRARY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The organization-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. State aids and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. 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 thereafter to pay liabilities of the current period. For this purpose, the Library System considers all revenues to be available if they are collected within 60 days after the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. The Library System does not use encumbrances for either budgeting or financial reporting purposes.

All major revenues are susceptible to accrual. Federal revenues are recorded in the year in which the related expenditure is made. If the amount of federal revenues cannot be reasonably estimated or realization is not assured, they are not recorded as revenue in the current year.

It is generally the Library System's policy to use restricted resources first, then unrestricted resources as they are needed when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Description of Funds:

The Plum Creek Library System reports the following Fund:

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

D. BUDGETS AND BUDGETARY ACCOUNTING

The budgeted amounts included in the Statement of Revenues, Expenditures and Changes in Fund Balances were accounted for and presented on the same basis and using the same accounting practices as are used to account and prepare financial reports for the fund. Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America (GAAP). The budgets are prepared by the Library System's personnel and approved by the Board. Encumbrances are not considered in the budget process or in the regular Library System's accounting.

Once a budget is approved, it can be amended by personnel with approval by the Board. Amendments are made before the fact, are reflected in the official minutes of the Library System, and are not made after fiscal year-end as dictated by law. Individual amendments were not material in relation to the original appropriations. All budget appropriations lapse at year-end.

PLUM CREEK LIBRARY SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND EQUITY

Cash:

The Library System's cash is considered to be cash on hand and cash deposits.

Custodial Credit Risk. Custodial credit risk is the risk that in the event of bank failure, the Library System's deposits may not be returned to it.

Minnesota Statutes require that all deposits be protected by insurance, security bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standby 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 financial institution other than that furnishing the collateral. The Library System does not have a policy for custodial credit risk. As of June 30, 2017, none of the Library System's bank balances were exposed to custodial credit risk.

Accounts Receivable:

Accounts receivable represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the Library System. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectable accounts is deemed necessary.

Prepaid Items:

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption.

Capital Assets:

Tangible and intangible capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The Library System maintains a threshold level of \$500 for capitalizing tangible and intangible capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Tangible and intangible capital assets are recorded in the organization-wide financial statements, but are not reported in the governmental fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 15 years for equipment.

The Library System does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

The Library System does not possess any material amounts of intangible capital assets.

PLUM CREEK LIBRARY SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND EQUITY (Cont'd)

Deferred Outflows of Resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represents a consumption of net position that applies to a future reporting period. During that future period, it will be recognized as an outflow of resources (expense/expenditure). The Library System has one item that qualifies for reporting in this category on the government-wide Statement of Net Position which is related to pensions.

Long-Term Obligations:

In the organization-wide financial statements long-term liabilities and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred costs and amortized over the term of related debt. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums or discounts received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences:

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability for compensated absences is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are accrued when incurred in the organization-wide financial statements. The organization-wide Statement of Net Position reports both current and noncurrent portions of compensated absences using full accrual accounting. The current portion consists of an amount based on expected or known retirements coming in the next fiscal year. The noncurrent portion consists of the remaining amount of vacation and total vested sick leave.

Sick Pay:

Full-time employees earn 12 sick days per year, which may be accrued up to a total of 120 days. Part-time employees earn a pro-rated accrual of sick leave cumulative to 12 days. An employee who resigns in good standing after five years of employment is entitled to 25% of each employee's unused sick leave.

Vacation Pay:

Full-time hourly employees earn 12 leave days per year. Additionally, after the first year of employment, these employees earn and are credited monthly with an additional half-day of leave for each year of consecutive service to the Library System. There is a provision for the accrual of 240 hours of annual leave from one calendar year to the next. Therefore, a liability is recognized for unused vacation. An employee who resigns in good standing after six months of employment is entitled to 100% of their unused vacation leave.

PLUM CREEK LIBRARY SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND EQUITY (Cont'd)

Other Postemployment Benefits:

The Library System pays health care premiums for employees based on their age and level of coverage. Since the insurance rate is based on age, the Library System does not have an implicit rate subsidy factor in postemployment health care expenses. Additionally, Minnesota Statutes require the Library System to allow retired employees to stay on the health care plan with the retiree responsible to pay the entire premium for continuation coverage. The Library System's personnel policy does not provide for any contributions upon employee retirement.

Pensions:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the 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. 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.

Unearned Revenue:

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and certain other payments received before eligibility requirements are met are also recorded as unearned revenue.

Deferred Inflows of Resources:

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represents an acquisition of net position that applies to a future reporting period. During that future period, it will be recognized as an inflow of resources (revenue). The Library System has items that qualify for reporting in this category on both the government-wide Statement of Net Position and the governmental fund financial statements related to pensions.

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 it is not in spendable form, such as 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 (resolution) of the Board. 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.

PLUM CREEK LIBRARY SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND EQUITY (Cont'd)

Fund Balance (Cont'd):

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 governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not 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 Library System Board Resolution, the Library System's Director and/or Library System's Fiscal Administrator is authorized to establish assignments of fund balance.

Unassigned - is the residual classification for the General Fund.

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

The Library System will reduce committed amounts first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Net Position:

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources in the organization-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the organization-wide financial statements when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position consists of all other net position that does not meet the definition of restricted or net investment in capital assets.

F. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

G. PRIOR YEAR INFORMATION

The basic financial statements include certain prior-year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2016, from which the partial information was derived.

PLUM CREEK LIBRARY SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. VIOLATIONS OF FINANCE-RELATED OBLIGATIONS

There were no violations of finance-related obligations.

B. DEFICIT FUND BALANCES

The Library System had no deficit fund balances.

C. EXCESS OF EXPENDITURES OVER BUDGET

There were no expenditures over budget.

NOTE 3. DEPOSITS

Cash on hand and cash deposits is as follows:

	<u>Book Balance</u>
Governmental Activities	
Cash on Hand	\$ 50
Cash in Bank	<u>249,948</u>
Total	<u>\$ 249,998</u>

The Library System's deposits were sufficiently covered by insurance through the FDIC as well as collateralized with securities held by the pledging financial institution's trust department or agent in the Library System's name.

NOTE 4. RECEIVABLES

Receivables are as follows:

	<u>Total Receivables</u>	<u>Amounts not Scheduled for Collection During the Subsequent Year</u>
Libraries and Counties, Outreach and Other Charges		
Libraries and Counties	\$ 2,192	\$
E-Rate	<u>9,689</u>	<u> </u>
Total Receivables	<u>\$ 11,881</u>	<u>\$ 0</u>
Due From Other Governments		
State of Minnesota - Basic System Support	<u>\$ 34,913</u>	<u>\$ 0</u>

The Library System considers all amounts to be scheduled for collection in the subsequent year.

PLUM CREEK LIBRARY SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital Assets, Being Depreciated				
Buildings	\$ 115,288	\$	\$	\$ 115,288
Vehicles	51,118		(17,802)	33,316
Library Equipment	34,384	660	(2,138)	32,906
Office Equipment and Furniture	88,528	7,878	(17,061)	79,345
Total Capital Assets, Being Depreciated	289,318	8,538	(37,001)	260,855
Less Accumulated Depreciation for				
Buildings	52,306	2,893		55,199
Vehicles	51,118		(17,802)	33,316
Library Equipment	29,000	2,311	(2,138)	29,173
Office Equipment & Furniture	70,128	4,309	(17,061)	57,376
Total Accumulated Depreciation	202,552	9,513	(37,001)	175,064
Total Capital Assets, Being Depreciated, Net	86,766	(975)	0	85,791
Governmental Activities Net Capital Assets	<u>\$ 86,766</u>	<u>\$ (975)</u>	<u>\$ 0</u>	<u>\$ 85,791</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
Administration	\$ 9,257
Programs	
Outreach	256
Total	<u>\$ 9,513</u>

NOTE 6. LONG TERM LIABILITIES

A summary of changes in long-term liabilities is:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
Compensated Absences	\$ 34,064	\$ 39,223	\$ (47,267)	\$ 26,020	\$
Net Pension Liability	253,943	376,135	(167,267)	462,811	
	<u>\$ 288,007</u>	<u>\$ 415,358</u>	<u>\$ (214,534)</u>	<u>\$ 488,831</u>	<u>\$ 0</u>

PLUM CREEK LIBRARY SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7. UNEARNED REVENUE

Schedule of the Unearned Revenue is:

Legacy Funds	\$ 141,934
E-Books	11,461
One Click Digital	<u>5,082</u>
Total	<u>\$ 158,477</u>

NOTE 8. DEFINED BENEFIT PENSION PLAN - STATEWIDE

A. PLAN DESCRIPTION

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

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

B. BENEFITS PROVIDED

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

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

The benefit provisions stated in the following paragraphs 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.

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

PLUM CREEK LIBRARY SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8. DEFINED BENEFIT PENSION PLAN - STATEWIDE (Cont'd)

C. CONTRIBUTIONS

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

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5% of pay, respectively, of their annual covered salary in fiscal year 2017. The Library System was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The Library System's contributions to the GERF for the plan's fiscal year ended June 30, 2017, were \$26,537. The Library System's contributions were equal to the required contributions for each year as set by state statute.

D. PENSION COSTS

At June 30, 2017, the Library System reported a liability of \$462,811 for its proportionate share of the GERF's net pension liability. The Library system's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. 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 the Library System totaled \$6,071. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Library System's proportion of the net pension liability was based on the Library System's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015 through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the Library System's proportion was 0.0057% at the end of the measurement period and 0.0049% at the beginning of the period.

For the year ended June 30, 2017, the Library System recognized pension expense of \$74,512 for its proportionate share of GERF's pension expense. In addition, the Library System recognized an additional \$1,810 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 June 30, 2017, the Library System reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 1,370	\$ 37,597
Changes in actuarial assumptions	99,817	
Differences between projected and actual investment earnings	51,670	
Changes in proportion	29,719	8,116
Contributions paid to PERA subsequent to measurement date	<u>26,537</u>	
Total	<u>\$ 209,113</u>	<u>\$ 45,713</u>

PLUM CREEK LIBRARY SYSTEM
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

NOTE 8. DEFINED BENEFIT PENSION PLAN - STATEWIDE (Cont'd)

D. PENSION COSTS (Cont'd)

\$26,537 reported as deferred outflows of resources related to pensions resulting from Library System contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

<u>Year ended June 30,</u>	<u>Pension Expense Amount</u>
2017	\$ 38,058
2018	27,490
2019	54,599
2020	16,716

E. ACTUARIAL ASSUMPTIONS

The total pension liability in the June 30, 2016 actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

<u>Assumption</u>	
Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50% per year

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 males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: one percent per year for all future years.

Actuarial assumptions used in the June 30, 2016 valuations were based on the results of actuarial experience studies. The most recent four-year experience study was completed in 2015.

The following changes in actuarial assumptions occurred in 2016:

The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.

The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.

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% to 3.25% for payroll growth and 2.50% for inflation.

PLUM CREEK LIBRARY SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8. DEFINED BENEFIT PENSION PLAN - STATEWIDE (Cont'd)

E. ACTUARIAL ASSUMPTIONS (Cont'd)

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rates of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

F. DISCOUNT RATE

The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.90% used in 2015. 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 GERS 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 the 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 paragraphs, as well as what the Library System's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
Discount Rate	6.50%	7.50%	8.50%
Library System's proportionate share of the net pension liability	\$ 657,330	\$ 462,811	\$ 302,582

PLUM CREEK LIBRARY SYSTEM
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2017

NOTE 8. DEFINED BENEFIT PENSION PLAN - STATEWIDE (Cont'd)

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 9. FUND BALANCE

A summary of the Plum Creek Library System's fund balance classifications is as follows:

Nonspendable		
Prepaid Items	\$	30,821
Restricted E-Rate		32,350
Unassigned		89,319
Total Fund Balance	\$	152,490

NOTE 10. CURRENT VULNERABILITY DUE TO CONCENTRATION

The Library System receives approximately 90% of its funding from governmental agencies under grant arrangements. Although there are no plans to discontinue this funding, the loss of this funding would severely impact the financial position and the ability of the Library System to operate.

NOTE 11. RISK MANAGEMENT

The Library System is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Library System obtains coverage through commercial insurance companies to manage the risk. It is estimated that the amount of actual or potential claims against the Library System as of June 30, 2017 would immaterially affect the financial condition of the Library System.

There has been no significant reduction in insurance coverage from the previous year in any of the Library System's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 12. RECLASSIFICATIONS

Certain prior year financial statement amounts have been reclassified to conform to current year's presentation. There was no affect on total net position or fund balance.

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REQUIRED SUPPLEMENTARY INFORMATION

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PLUM CREEK LIBRARY SYSTEM

SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND
EMPLOYER CONTRIBUTIONS
JUNE 30, 2017

Schedule of Proportionate Share of the Net Pension Liability

Fiscal Year Ending	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability (Asset) Associated with the Employer (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) and the State's Proportionate Share of the Net Pension Liability (Asset) Associated with the Employer (a+b)	Employer's Covered- Employee Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<u>PERA</u>							
6/30/2016	0.0057%	\$ 462,811	\$ 6,071	\$ 468,882	\$ 354,025	132.4%	68.9%
6/30/2015	0.0049%	253,944		253,944	290,057	87.5%	78.2%
6/30/2014	0.0052%	244,270		244,270	270,887	7.3%	78.7%

Schedule of Employer Contributions

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered- Employee Payroll (d)	Contributions as a Percentage of Covered- Employee Payroll (b/d)
<u>PERA</u>					
6/30/2017	\$ 26,537	\$ 26,537		\$ 353,871	7.50%
6/30/2016	26,549	26,549		354,025	7.50%
6/30/2015	20,489	20,489		273,188	7.50%

The Library System implemented GASB Statement No. 68 for fiscal year ended June 30, 2015. Information for prior years is not available.

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SUPPLEMENTARY INFORMATION

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PLUM CREEK LIBRARY SYSTEM

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED JUNE 30, 2017
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016

	2017				2016
	Budgeted Amounts		Actual	Over (Under) Final Budget	
	Original	Final			
REVENUES					
Intergovernmental					
Federal Grants and Aids					
Federal E-Rate Funds	\$ 69,301	\$ 69,301	\$ 62,051	\$ (7,250)	\$ 65,542
State Grants and Aids					
Basic System Support	348,500	348,500	349,125	625	349,385
MN Legacy Funds	137,112	137,112	137,359	247	106,278
RLTA Aid	16,000	16,000	13,393	(2,607)	16,270
MN Link Gateway	4,000	4,000	4,289	289	4,172
PERA Aid	722	722	722		722
Total State Grants and Aids	<u>506,334</u>	<u>506,334</u>	<u>504,888</u>	<u>(1,446)</u>	<u>476,827</u>
Total Intergovernmental	<u>575,635</u>	<u>575,635</u>	<u>566,939</u>	<u>(8,696)</u>	<u>542,369</u>
Charges for Services					
Outreach Services	39,179	39,179	34,087	(5,092)	62,540
Outreach Unemployment	14,050	14,050	7,384	(6,666)	
Specialty Items Reimbursed	30,000	30,000	21,556	(8,444)	20,316
Total Charges for Services	<u>83,229</u>	<u>83,229</u>	<u>63,027</u>	<u>(20,202)</u>	<u>82,856</u>
Invoiced to Counties	252,000	252,000	279,966	27,966	252,115
Automation	119,490	119,490	120,084	594	112,730
Delivery	42,500	42,500	43,225	725	40,895
Miscellaneous					
Donations					1,006
Interest Income	250	250	309	59	331
E- Book Income	25,980	25,980	27,583	1,603	30,167
Pioneerland Legacy	5,750	5,750	2,785	(2,965)	8,825
Copy Machine	10	10		(10)	
One Click Digital Subscriptions	10,020	10,020	6,718	(3,302)	
Miscellaneous	100	100	1,837	1,737	259
Rent	4,296	4,296	4,296		4,295
Total Miscellaneous	<u>46,406</u>	<u>46,406</u>	<u>43,528</u>	<u>(2,878)</u>	<u>44,883</u>
Total Revenues	<u>1,119,260</u>	<u>1,119,260</u>	<u>1,116,769</u>	<u>(2,491)</u>	<u>1,075,848</u>

PLUM CREEK LIBRARY SYSTEM

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED JUNE 30, 2017
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016

	2017				2016
	Budgeted Amounts		Actual	Over (Under) Final Budget	
	Original	Final			
EXPENDITURES					
Current					
Administration					
Personal Services					
Staff Salaries	\$ 139,207	\$ 139,207	\$ 137,672	\$ (1,535)	\$ 143,588
Staff Payroll	22,227	22,227	21,345	(882)	20,804
Staff Hospitalization and Life Insurance	25,836	25,836	30,936	5,100	26,490
Insurance	5,180	5,180	4,867	(313)	5,176
Workers' Compensation Insurance	7,250	7,250	3,809	(3,441)	3,430
Total Personal Services	199,700	199,700	198,629	(1,071)	199,488
Supplies					
Office Supplies, Printing and Stationery	3,500	3,500	1,972	(1,528)	3,132
Postage	1,000	1,000	1,056	56	858
Total Supplies	4,500	4,500	3,028	(1,472)	3,990
Other Services and Charges					
Publications, Subscriptions and Dues	2,000	2,000	1,622	(378)	2,093
Telephone	4,800	4,800	3,333	(1,467)	4,301
Travel, Meetings and Seminars	9,250	9,250	7,699	(1,551)	9,520
Professional Services: Legal and Audit	7,800	7,800	7,665	(135)	7,730
Consultation Fees			3,000	3,000	
Equipment Maintenance and Repairs	6,000	6,000	5,454	(546)	6,910
Real Estate Taxes	450	450	399	(51)	425
Miscellaneous	2,150	2,150	2,759	609	3,350
Utilities	6,350	6,350	5,492	(858)	5,565
Total Other Services and Charges	38,800	38,800	37,423	(1,377)	39,894
Total Administration	243,000	243,000	239,080	(3,920)	243,372
Programs					
Cataloging and Inter Library Loan					
Personal Services					
Salaries	84,802	84,802	85,693	891	84,255
Payroll Taxes	12,849	12,849	12,591	(258)	12,446
Staff Hospitalization and Life Insurance	16,194	16,194	17,385	1,191	14,918
Workers' Compensation Insurance	1,650	1,650	1,498	(152)	1,513
Total Personal Services	115,495	115,495	117,167	1,672	113,132
Reference					
Materials	100	100	7	(93)	142
Other Services and Charges					
Dialog and OCLC Searches	7,000	7,000	7,269	269	7,086
Travel, Meetings and Seminars	1,000	1,000	337	(663)	59
Total Other Services and Charges	8,000	8,000	7,606	(394)	7,145
Total Cataloging and Inter Library Loan	123,595	123,595	124,780	1,185	120,419

PLUM CREEK LIBRARY SYSTEM

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED JUNE 30, 2017
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016

	2017				2016
	Budgeted Amounts		Actual	Over (Under) Final Budget	
	Original	Final			
EXPENDITURES (Cont'd)					
Current (Cont'd)					
Programs (Cont'd)					
Delivery System					
Personal Services					
Salaries	\$ 31,232	\$ 31,232	\$ 32,116	\$ 884	\$ 31,405
Payroll Taxes	4,689	4,689	4,654	(35)	4,617
Health and Life Insurance	5,532	5,532	5,164	(368)	4,904
Workers' Compensation Insurance	650	650	561	(89)	582
Total Personal Services	42,103	42,103	42,495	392	41,508
Other Services and Charges					
Rent	1,500	1,500	1,500		1,500
Vehicle, Repair Maintenance and Insurance	14,500	14,500	15,130	630	13,969
Other	1,720	1,720	1,904	184	2,167
Total Other Services and Charges	17,720	17,720	18,534	814	17,636
Total Delivery System	59,823	59,823	61,029	1,206	59,144
Automation					
Personal Services					
Salaries	45,200	45,200	45,541	341	44,664
Payroll Taxes	6,851	6,851	6,747	(104)	6,624
Health and Life Insurance	6,720	6,720	6,281	(439)	6,111
Workers' Compensation Insurance	730	730	795	65	791
Total Personal Services	59,501	59,501	59,364	(137)	58,190
Other Services and Charges					
Telephone	220	220	338	118	215
Software and Hardware Repair and Maintenance	1,450	1,450	3,255	1,805	3,187
Telecommunications	76,000	76,000	72,664	(3,336)	74,164
Library Expense - Automation	26,505	26,505	26,185	(320)	21,555
Continuing Education	1,600	1,600	1,292	(308)	1,224
Total Other Services and Charges	105,775	105,775	103,734	(2,041)	100,345
Total Automation	165,276	165,276	163,098	(2,178)	158,535
Outreach					
Personal Services					
Salaries	26,081	26,081	25,330	(751)	39,907
Payroll Taxes	3,015	3,015	3,482	467	5,907
Health and Life Insurance	3,408	3,408	3,117	(291)	6,111
Workers' Compensation Insurance	350	350	452	102	675
Total Personal Services	32,854	32,854	32,381	(473)	52,600

PLUM CREEK LIBRARY SYSTEM

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED JUNE 30, 2017
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016

	2017				2016
	Budgeted Amounts		Actual	Over (Under) Final Budget	
	Original	Final			
EXPENDITURES (Cont'd)					
Current (Cont'd)					
Programs (Cont'd)					
Outreach (Cont'd)					
Supplies					
Program Supplies and Postage	\$ 150	\$ 150	\$	\$ (150)	\$ 98
Books	740	740	150	(590)	1,648
Continuing Education	125	125		(125)	39
Total Supplies	<u>1,015</u>	<u>1,015</u>	<u>150</u>	<u>(865)</u>	<u>1,785</u>
Other Services and Charges					
Insurance	275	275	272	(3)	545
Vehicle Operating and Maintenance	4,275	4,275	1,070	(3,205)	3,245
Other Outreach Expenses	14,906	14,906	9,448	(5,458)	313
Total Other Services and Charges	<u>19,456</u>	<u>19,456</u>	<u>10,790</u>	<u>(8,666)</u>	<u>4,103</u>
Total Outreach	<u>53,325</u>	<u>53,325</u>	<u>43,321</u>	<u>(10,004)</u>	<u>58,488</u>
Services					
Specialty Items	31,000	31,000	22,555	(8,445)	20,846
E-Book Contract and Collections	25,980	25,980	27,583	1,603	31,167
One Click Digital Contract and Collections	10,020	10,020	6,718	(3,302)	
County Aid to Libraries	<u>250,000</u>	<u>250,000</u>	<u>279,966</u>	<u>29,966</u>	<u>252,190</u>
Total Services	<u>317,000</u>	<u>317,000</u>	<u>336,822</u>	<u>19,822</u>	<u>304,203</u>
Regional Legacy					
Personal Services					
Salaries	15,794	15,794	18,346	2,552	7,478
Payroll Taxes	<u>1,360</u>	<u>1,360</u>	<u>1,728</u>	<u>368</u>	<u>1,421</u>
Total Personal Services	<u>17,154</u>	<u>17,154</u>	<u>20,074</u>	<u>2,920</u>	<u>8,899</u>
Supplies					
Program Supplies	1,500	1,500	829	(671)	1,036
Other Services and Charges					
Advertising	3,000	3,000	5,557	2,557	3,120
Travel and Maintenance	100	100	248	148	334
Speaker Contracts	84,004	84,004	91,005	7,001	72,626
Other Regional Legacy Expenses	<u>4,600</u>	<u>4,600</u>	<u>1,370</u>	<u>(3,230)</u>	<u>1,422</u>
Total Other Services and Charges	<u>91,704</u>	<u>91,704</u>	<u>98,180</u>	<u>6,476</u>	<u>77,502</u>
Total Regional Legacy	<u>110,358</u>	<u>110,358</u>	<u>119,083</u>	<u>8,725</u>	<u>87,437</u>

PLUM CREEK LIBRARY SYSTEM

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED JUNE 30, 2017
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016

	2017				2016
	Budgeted Amounts		Actual	Over (Under) Final Budget	
	Original	Final			
EXPENDITURES (Cont'd)					
Current (Cont'd)					
Programs (Cont'd)					
Multi-Regional Legacy					
Personal Services					
Salaries	\$ 8,944	\$ 8,944	\$ 7,414	\$ (1,530)	\$ 4,988
Payroll Taxes	1,360	1,360	1,083	(277)	753
Total Personal Services	<u>10,304</u>	<u>10,304</u>	<u>8,497</u>	<u>(1,807)</u>	<u>5,741</u>
Supplies					
Program Supplies	1,500	1,500	363	(1,137)	835
Other Services and Charges					
Advertising	450	450	151	(299)	203
Travel			248	248	273
Speaker Contracts	9,700	9,700	7,016	(2,684)	12,338
Other Multi-Regional Legacy Expenses	2,550	2,550		(2,550)	
Total Other Services and Charges	<u>12,700</u>	<u>12,700</u>	<u>7,415</u>	<u>(5,285)</u>	<u>12,814</u>
Total Multi-Regional Legacy	<u>24,504</u>	<u>24,504</u>	<u>16,275</u>	<u>(8,229)</u>	<u>19,390</u>
Statewide Legacy					
Speaker Contracts	8,000	8,000	6,039	(1,961)	7,998
Total Program Expenditures	<u>861,881</u>	<u>861,881</u>	<u>870,447</u>	<u>8,566</u>	<u>815,614</u>
Capital Outlay					
Administration	4,339	4,339		(4,339)	2,067
Programs					
Automation	10,040	10,040	8,540	(1,500)	804
Total Capital Outlay	<u>14,379</u>	<u>14,379</u>	<u>8,540</u>	<u>(5,839)</u>	<u>2,871</u>
Total Expenditures	<u>1,119,260</u>	<u>1,119,260</u>	<u>1,118,067</u>	<u>(1,193)</u>	<u>1,061,857</u>
Net Change in Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>(1,298)</u>	<u>\$ (1,298)</u>	<u>13,991</u>
FUND BALANCE, BEGINNING OF YEAR			<u>153,788</u>		<u>139,797</u>
FUND BALANCE, END OF YEAR			<u>\$ 152,490</u>		<u>\$ 153,788</u>

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COMPLIANCE SECTION

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

The Governing Board
Plum Creek Library System
Worthington, 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 the major fund of the Plum Creek Library System, Worthington, Minnesota, as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated November 1, 2017.

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

In connection with our audit, nothing came to our attention that caused us to believe that the Library System failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for 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 Library System's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants & Consultants
Willmar, Minnesota

November 1, 2017

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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

The Governing Board
Plum Creek Library System
Worthington, Minnesota

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the Plum Creek Library System, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Library System's basic financial statements and have issued our report thereon dated November 1, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Library System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library System's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 2017-001 and 2017-002 as described in the accompanying Schedule of Findings to be material weaknesses.

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Compliance and Other Matters

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

Plum Creek Library System's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Library System'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 Library System's internal control and compliance. Accordingly, this communication is not suitable for any other purposes.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants
Willmar, Minnesota

November 1, 2017

PLUM CREEK LIBRARY SYSTEM

SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2017

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

PREVIOUSLY REPORTED ITEM NOT RESOLVED

FINDING: 2017-001 LIMITED SEGREGATION OF DUTIES

- Condition: There is an absence of appropriate segregation of duties consistent with appropriate control objectives due to a limited number of office employees.
- Criteria: The basic premise is that no one person should have access to both physical assets and the related accounting records or to all phases of a transaction. The lack of such controls could result in the occurrence of a material error or fraud in relation to the financial statements not being detected by management.
- Cause: The Library System has assigned duties to staff based on a cost-benefit relationship to the Library System and the practicality of the level of staffing they maintain.
- Effect: The lack of adequate segregation of duties could adversely affect the Library System's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.
- Recommendation: The Library System should continue to monitor and evaluate the job responsibilities assigned to staff to determine whether there is an unacceptable risk.

MANAGEMENT'S RESPONSE

The Library System is aware of the limited segregation of duties and will continue to review internal controls and make changes when they can be made.

PLUM CREEK LIBRARY SYSTEM

SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2017

I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS (Cont'd)

PREVIOUSLY REPORTED ITEM NOT RESOLVED

FINDING: 2017-002 AUDITOR PREPARED FINANCIAL STATEMENTS

- Condition: The Library System does not have an internal control system designed to provide for the preparation of the financial statements and the related notes being audited. However, based on the degree of complexity and level of detail needed to prepare the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), the Library System has requested the auditors to prepare them.
- Criteria: The preparation of the financial statements and the related notes are the responsibility of management.
- Cause: There are a limited number of office employees and resources available to allow for the adequate preparation of the financial statements and the related notes by the Library System.
- Effect: This could result in a material misstatement to the financial statements and related notes that would not be prevented, or detected and corrected as a result of the Library System's current internal control.
- Recommendation: The Library System should continue to request the assistance to draft the financial statements and related notes and thoroughly review these financial statements after they have been prepared so the Library System can take responsibility for them.

MANAGEMENT'S RESPONSE

The Library System is aware of this; however, due to significant cost and a limited number of employees, it is in the Library System's best financial interest to contract for the preparation of the financial statements.

PLUM CREEK LIBRARY SYSTEM

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
 JUNE 30, 2017

<u>Finding Reference</u>	<u>Finding Title</u>	<u>Status</u>	<u>Year Finding Initially Occurred</u>	<u>If Not Corrected, Provide Planned Corrective Action or Other Explanation</u>
Financial Statement Findings:				
2011-01	Limited Segregation of Duties	Not Corrected	2011	See current year finding 2017-001
2011-02	Auditor Prepared Financial Statements	Not Corrected	2011	See current year finding 2017-002
Minnesota Legal Compliance Findings:				
None				