MINNESOTA LIBRARY ASSOCIATION
MANAGEMENT LETTER
December 31, 2017

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MANAGEMENT LETTER

To the Board of Directors
Minnesota Library Association
Minneapolis, Minnesota

In planning and performing our audit of the financial statements of Minnesota Library Association for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered Minnesota Library Association's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we considered to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies presented in the attachment to this letter to be significant deficiencies in internal control.

This letter does not affect our report dated March 9, 2018 on the financial statements of Minnesota Library Association. We will review the status of these comments during our next audit engagement. Our comments, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience and perform any additional study of these matters.

We sincerely appreciate the opportunity to provide services to the Association and hope you find the information included in this correspondence useful and informative. If you have any questions or wish to discuss any of the items further, please let us know.

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

Harrington Langer & Associates

March 9, 2018

I. Internal Control Deficiencies

Segregation of Duties: Our consideration of internal control disclosed that the Association has an inherent deficiency associated with the size of its accounting function that we consider to be a significant deficiency.

The size of the Association is such that optimum internal control achieved through adequate segregation of incompatible duties among accounting personnel is not feasible. Although the Association has implemented policies and procedures to mitigate for the lack of segregation of duties, the Organization does not meet the criteria (as pronounced by the American Institute of Certified Public Accountants) for segregation of duties in its accounting function. As such, management and the Board of Directors should maintain sufficient oversight to avoid errors and irregularities. This situation is common to organizations of this size and any changes should be reviewed from a cost-benefit perspective.

Financial Reporting Process: Our consideration of internal control disclosed that the Association has a significant deficiency associated with the financial reporting process.

Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial statements and disclosures, in conformity with U.S. generally accepted accounting principles (GAAP). Like many similarly sized organizations, management has requested assistance from us, the auditors, with drafting financial statements and related notes. The outsourcing of these services is not unusual in organizations of this size and is a result of management's cost-benefit decision to rely on our accounting expertise rather than incurring this internal resource cost. This increases the possibility that errors and irregularities may not be detected on a timely basis.

Management Response:

Management is aware of these situations, but a cost-benefit analysis of the issues does not currently support the allocation of additional employees or resources at this time. Certain other safeguards are currently maintained (Management oversight and review of draft financial statements) which provide satisfactory mitigation of the issues.

The Association's response to the significant deficiencies identified in our audit has not been subjected to the audit procedures applied in our audit of the financial statements and, accordingly, we express no opinion on it.

II. New Accounting Pronouncements

Revenue Recognition Standard: FASB ASU No. 2014-09

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU No. 2014-09 affects all entities that enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The core principle of Topic 606 is that an entity should recognize revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. Revenue is recognized when the entity satisfies a performance obligation by transferring promised goods or services to customers (which is when the customer obtains control of the goods or services). ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted.

Lease Accounting Standard: FASB ASU No. 2016-02

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing all leases (with a term of more than 12 months) on the balance sheet and disclosing key information about leasing arrangements. This is accomplished by recording both a right of use (ROU) asset and lease liability. This standard will result in moving operating lease obligations from the footnotes to the statement of net position. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted.

Not-for-Profit (NFP) Financial Reporting Standard: FASB ASU No. 2016-14

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 will result in significant changes to financial reporting and disclosures for NFPs. The standard is intended to make improvements that address complexity in net asset classification, clarity of information regarding liquidity and availability of cash, transparency in reporting of financial reporting measures, consistency in reporting expenses by function and nature, and utility of the statement of cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted.

III. Required Communications

We have audited the financial statements of Minnesota Library Association for the year ended December 31, 2017 and have issued our report thereon dated March 9, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated January 9, 2018. Professional standards also require that we communicate to you the following information related to our audit.

<u>Significant Audit Findings</u>

Qualitative Aspects of Accounting Principles

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Association are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2017. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant sensitive estimates affecting the financial statements for the year ended December 31, 2017.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing the audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We detected no material misstatements and did not propose any audit adjustments that, in our judgment, could have a significant effect, either individually or in the aggregate, on the Association as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 9, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Issues or Findings

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