

KITCHIGAMI REGIONAL LIBRARY

FINANCIAL STATEMENTS

DECEMBER 31, 2015

KITCHIGAMI REGIONAL LIBRARY

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INTRODUCTORY SECTION

**KITCHIGAMI REGIONAL LIBRARY
OFFICIAL DIRECTORY
DECEMBER 31, 2015**

POSITION	NAME
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OFFICIALS

Chair	Beltrami County	Richard D. Anderson (County Commissioner)
Vice Chair	Cass County	Neal Gaalswyk (County Commissioner)
Secretary	City of Brainerd	Mary Koep
Treasurer	City of Wadena	Donald Niles
Director		Marian Ridge

DIRECTORS

Richard D. Anderson (County Commissioner)	Beltrami County	Michael Meehlhause	City of Bemidji
Neal Gaalswyk (County Commissioner)	Cass County	Christina Regas	City of Blackduck
Paul Thiede (County Commissioner)	Crow Wing County	Mary Koep	City of Brainerd
Ed G. Smith (County Commissioner)	Hubbard County	Wayne Bohn	City of Cass Lake
Jim Hofer (County Commissioner)	Wadena County	Darlene Petterson	City of Longville
		Jeff Mosner	City of Park Rapids
		Tony DeSanto	City of Pine River
		Donald Niles	City of Wadena
		JoAnn Rand	City of Walker

FINANCIAL SECTION



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American Institute of
Certified Public Accountants

Minnesota Society of
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Kitchigami Regional Library
Pine River, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Kitchigami Regional Library (the Library) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Basis for Qualified Opinion

We were unable to obtain sufficient appropriate audit evidence with regard to the valuation of the Library's collection assets. The Library does not maintain records that provide complete accounting of the historical cost of the books and other items included in the Library's collection. Accounting principles generally accepted in the United States of America require that these assets be recorded at cost. We have concluded that the possible effects on the financial statements of undetected misstatements due to this departure, if any, could be material but not pervasive.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Library as of December 31, 2015, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

As described in Note 1 to the financial statements, in the year ended December 31, 2015, the Library adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment to GASB Statement No. 68*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and budgetary comparison information on pages 5 through 13 and page 31 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Library’s basic financial statements. The Introductory Section, *Detailed Revenue and Expense Schedule - Entity-Wide*, *Schedule of Minnesota Legacy Grant Funding*, and *Schedule of Regional Library Telecommunication Aid – Cash Basis* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The *Detailed Revenue and Expense Schedule - Entity-Wide*, *Schedule of Minnesota Legacy Grant Funding*, and *Schedule of Regional Library Telecommunication Aid – Cash Basis* are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *Detailed Revenue and Expense Schedule - Entity-Wide*, *Schedule of Minnesota Legacy Grant Funding*, and *Schedule of Regional Library Telecommunication Aid – Cash Basis* are fairly stated in all material respects, in relation to the basic financial statements as a whole.

The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2016, on our consideration of the Library'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 the 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's internal control over financial reporting and compliance.



Justin, Clasen & Company, Ltd.
Certified Public Accountants

Pequot Lakes, Minnesota
July 25, 2016

**KITCHIGAMI REGIONAL LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

This section of the annual financial report of the Kitchigami Regional Library (the Library), presents our discussion and analysis of the Library's financial performance during the fiscal year that ended on December 31, 2015. This discussion should be read in conjunction with the Library's financial statements which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditor's Report, required supplementary information which includes management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the Library.

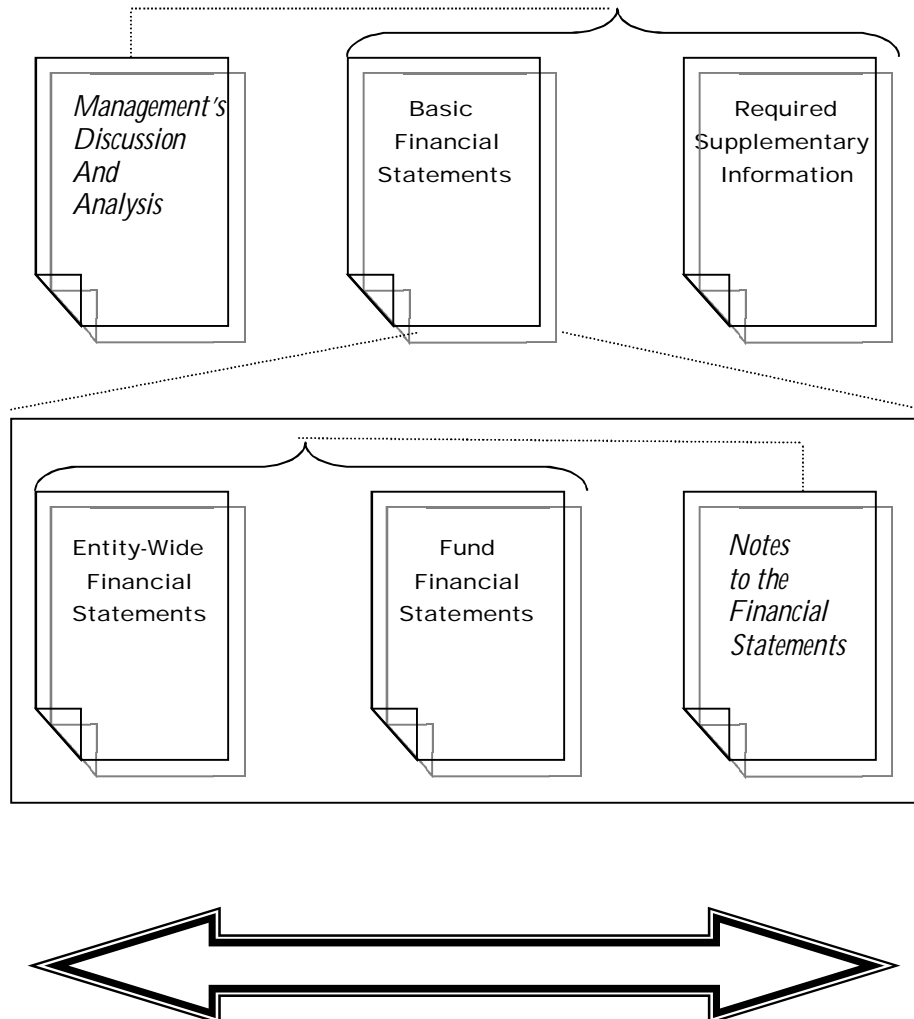
- The first two statements are the Statement of Net Position and the Statement of Activities which are *entity-wide financial statements* that provide both short-term and long-term information about the Library's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Library, reporting the Library's operations in more detail than the entity-wide statements. The fund financial statements, or governmental funds statements, show how basic services were financed in the short-term as well as amounts remaining for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data.

**KITCHIGAMI REGIONAL LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

The following shows how the various parts of this annual report are arranged and related to one another.

Annual Report Format



The following table summarizes the major features of the Library's financial statements, including the portion of the Library's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

**KITCHIGAMI REGIONAL LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

Major Features of the Library's Entity-wide and Fund Financial Statements

<i>Type of Statements</i>	Fund Financial Statements	
	Entity-wide	Governmental Funds
<i>Scope</i>	Entire entity (except Fiduciary Funds) and the Component units	The activities of the Library that are not Proprietary or Fiduciary
<i>Required financial Statements</i>	" Statement of Net Position	" Balance sheet
	" Statement of Activities	" Statement of Revenues, Expenditures, and Changes in Fund Balances
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash or benefit is received or liability is paid or satisfied.	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter

Entity-Wide Statements

The entity-wide statements report information about the Library as a whole using accounting methods similar to those used by nonprofit organizations. The statement of net position includes all of the Library's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two entity-wide statements report the Library's *net position* and how it has changed. Net position – the difference between the Library's assets and liabilities – is a way to measure the Library's financial *position*.

- " Over time, increases or decreases in the Library's net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- " To assess the overall health of the Library, consider additional non-financial factors.

In the entity-wide financial statements, the Library's activities are shown in one category:

- " Governmental activities – Includes all of the Library's basic services.

Fund Financial Statements

The fund financial statements provide more detailed information about the Library's funds – focusing on its most significant or "major" funds – not about the Library as a whole. Funds are accounting methods the Library uses to keep track of specific sources of funding and spending for particular programs:

- " Some funds are required by State law and by other restrictions.

**KITCHIGAMI REGIONAL LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

Fund Financial Statements (Continued)

- Some governmental entities establish other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The Library has one kind of fund:

- *Governmental Funds* – All of the Library's basic services are included in governmental funds, which generally focus on (1) 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 funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Library's programs. Because this information does not encompass the additional long-term focus of the entity-wide statements, additional information is provided at the bottom of the funds statements that explains the relationship (or differences) between them.

The Library's Funds

Changes to the Library's funds are reported on page 17 of these statements. The Library's Board of Directors has the ability to create separate funds to help manage money for specific purposes. The restricted funds established for specific purposes are analyzed in Note 6 to these statements. The committed funds established for specific services are analyzed in Note 6 of these statements.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

The Library Highlights

During 2015, the Library's Board amended the budget to take into account events that occurred during the year.

The significant changes in revenues were:

- Donations for Library materials are not budgeted but are a significant factor in total revenue, and monetary donations increased slightly in 2015. The Library holds these funds on behalf of the branch library which received the donation.
- Donations for branch library specific additional automation equipment are not budgeted. The Library holds these funds on behalf of the branch library which received the donation. At the end of 2015, the Library was holding \$30,655 in unexpended donations for branch library computers.
- Interest income decreased and continues to be low.
- Regional Library Basic System Support, the core funding for regional library operations, increased slightly for fiscal year 2016 which benefited the second half of 2015 for the Library.

**KITCHIGAMI REGIONAL LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

The Library Highlights (Continued)

The significant changes in revenues were: (Continued)

- Regional library telecommunications aid grant has decreased significantly because the state revised its formulas.
- The Library received Arts and Cultural Heritage (Legacy Amendment) funds for the state's fiscal year 2015 but decreased current funds for fiscal year 2016.
- Revenue for service charges such as lost and damaged books and other materials increased slightly in 2015.

The significant changes in expenditures were:

- Continued efforts to control or reduce basic operating costs.
- Branch Library book purchases are recorded as expenditures.
- Expenditures for special regional and branch Library programs of \$112,060 was made possible by the State of Minnesota's Legacy Amendment Funds for Arts and Cultural Heritage. A full record of these activities is available on the State of Minnesota Legacy Amendment website.
- The associate libraries in Crosslake and Pequot Lakes were given \$10,000 to spend on library materials; the other expenditures for these libraries include personnel and vehicle costs in interlibrary loans and delivery programs.
- The mobile library did not operate from February to November 2015 which significantly decreased expenditures in the outreach program.
- The Library was in the final year of its three-year commitment to fund the development of an e-book collection.
- A new mobile library bookmobile vehicle was purchased and began operations in November 2015.

The Library as a Whole

- The Library's net position decreased by \$11,382 this year to \$4,454,946 compared to an increase of \$147,829 in 2014. A significant amount of revenue is restricted in use to special program areas such as legacy amendment programs and telecommunications.
- The Library's primary source of revenue was city and county levies, which represent 69% of total revenue compared to 65% last year. State basic aid, telecommunications, and special grants represent 31% of total revenue.
- Employee costs, which represent 64% of the Library's expenses, increased to \$1,723,462 from \$1,618,981 in 2014.

**KITCHIGAMI REGIONAL LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

The Library as a Whole (Continued)

- Library Materials, including Branch Collections expense, was the second largest expense category; at \$435,332, it is 16% of the total expenses.
- Legacy Programs expense was the third largest expense category; at \$112,060, it is 4% of the total expenses.
- The operational expenditures supported circulation of 725,000 items in 2015, a 7.0% decrease, and approximately 15,000 interlibrary loan items were borrowed and loaned. At the end of 2015, the Library's collections contained approximately 9,200 shared items and 314,570 items owned by the cities and located in their libraries. The usage of e-materials: e-books, e-audiobooks, and e-magazines increased region-wide. E-book circulation increased by 11.6%. Use of the Tumblebooks subscription decreased by 53.5%.
- Due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, net pension liability and its related components are now included on the Statement of Net Position. The net pension liability was \$1,046,869. The result of implementing GASB Statement No. 28 was to reduce the Net Position of the Library by \$1,013,256 retroactive to December 31, 2014.

The table below presents key financial information in a condensed format.

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Current Assets	\$ 3,116,207	\$ 3,043,018
Capital Assets (Net)	720,455	660,704
Assets - Designated	1,915,538	1,991,141
Total Assets	<u>5,752,200</u>	<u>5,694,863</u>
Deferred Outflows of Resources	<u>142,115</u>	<u>-</u>
Current Liabilities	258,878	215,475
Non Current Liabilities	1,046,869	-
Total Liabilities	<u>1,305,747</u>	<u>215,475</u>
Deferred Inflow of Resources	<u>133,812</u>	<u>-</u>
Net Position		
Invested in Capital Assets	720,256	660,105
Restricted	206,882	178,375
Unrestricted	3,527,618	4,640,908
Total Net Position	<u>\$ 4,454,756</u>	<u>\$ 5,479,388</u>
Revenue		
State	\$ 753,281	\$ 897,166
Local	1,849,214	1,812,728
Other	91,177	67,290
Total Revenue	<u>2,693,672</u>	<u>2,777,184</u>
Expenses - Library Services	<u>2,705,054</u>	<u>2,629,355</u>
CHANGE IN NET POSITION	<u>\$ (11,382)</u>	<u>\$ 147,829</u>

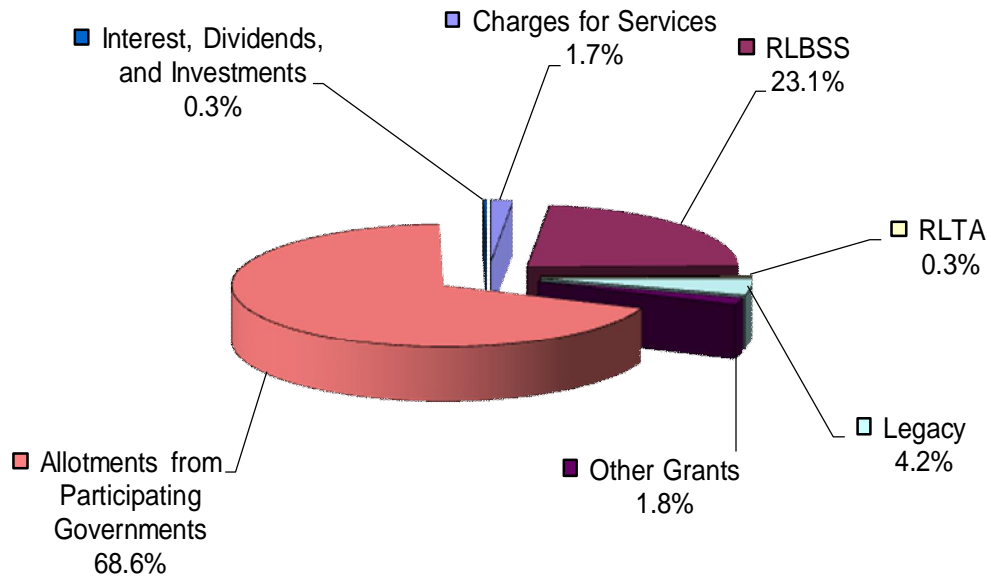
**KITCHIGAMI REGIONAL LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

Change in Net Position

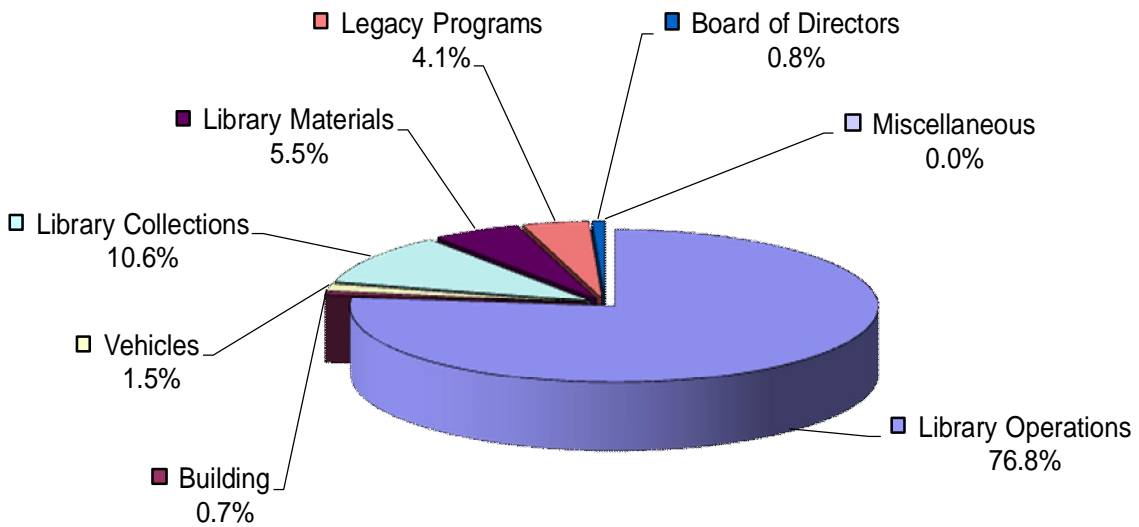
	Year ended December 31,	
	2015	2014
REVENUES		
Program		
Charges for Services	\$ 46,189	\$ 44,110
Regional Library Basic System Support Grant	623,145	610,457
Regional Library Telecommunications Aid Grant	6,844	137,578
Legacy Grant	112,060	104,163
Other Grants & Contributions	48,224	44,968
General		
Allotments from Participating Governments	1,849,214	1,812,728
Interest, Dividends, and Investments	7,996	23,180
Total Revenues	2,693,672	2,777,184
EXPENSES		
Library Operations	2,078,002	1,968,387
Building	18,466	35,569
Vehicles	39,584	46,309
Library Collections	287,792	278,982
Library Materials	147,540	173,120
Legacy Programs	112,060	104,563
Board of Directors	21,588	22,365
Miscellaneous	22	60
Total Expenses	2,705,054	2,629,355
CHANGE IN NET POSITION	(11,382)	147,829
Net Position - Beginning	5,479,388	5,331,559
Prior Period Adjustment	(1,013,250)	-
NET POSITION - ENDING	\$ 4,454,756	\$ 5,479,388

**KITCHIGAMI REGIONAL LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

Governmental Activity Revenues by Source



Governmental Activities Expenses by Type



**KITCHIGAMI REGIONAL LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

Capital Assets and Debt

At the end of 2015, the Library had a net capital assets investment of \$720,256 in property which consisted of its headquarters building, furniture and equipment, vehicles, outreach collections, and shared collections.

External Factors

Currently known facts, decisions, or conditions that are expected to have a significant effect on the current financial position or results of operations:

State revenues for 2015 were less than budgeted expectations.

The current joint powers agreement between the signatory cities and counties of Kitchigami Regional Library was signed in January 2010. This agreement reallocated some financial responsibilities and transferred ownership of the branch library collections to those cities. This resulted in significant changes to the financial statements.

In July 2009 the State of Minnesota included regional public library systems in the first biennium of the Legacy Amendment Fund. The allocation for regional public library systems is distributed according to the state formula for RLBSS. For the seventh state fiscal year, which began July 1, 2015, the Library received \$112,060 to be used for free public programs in the arts and cultural heritage.

CONTACTING THE LIBRARY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Regional Office at:

Kitchigami Regional Library
P.O. Box 84
Pine River, MN 56474

BASIC FINANCIAL STATEMENTS

**KITCHIGAMI REGIONAL LIBRARY
STATEMENT OF NET POSITION
DECEMBER 31, 2015**

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS	
Cash and Cash Equivalents	\$ 3,089,155
Cash and Cash Equivalents - Designated	1,915,538
Prepaid Expenses	27,052
Capital Assets:	
Land	34,566
Buildings and Improvements	555,415
Vehicles	371,190
Furniture, Fixtures, and Equipment	480,368
Library Collections	552,072
Less Accumulated Depreciation	<u>(1,273,156)</u>
Total Assets	<u>5,752,200</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>142,115</u>
LIABILITIES	
Accounts Payable	50,784
Sales Tax Payable	873
Accrued Payroll	104,657
Accrued Compensated Absences	56,594
Net Pension Liability	<u>1,046,869</u>
Total Liabilities	<u>1,259,777</u>
DEFERRED INFLOWS OF RESOURCES	<u>179,782</u>
NET POSITION	
Investment in Capital Assets	720,256
Restricted	206,882
Unrestricted	<u>3,527,618</u>
Total Net Position	<u><u>\$ 4,454,756</u></u>

**KITCHIGAMI REGIONAL LIBRARY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	TOTAL GOVERNMENTAL ACTIVITIES
Governmental Activities:				
Library Operations	\$ 2,078,002	\$ 46,189	\$ 678,213	\$ 1,353,600
Building	18,466	-	-	18,466
Vehicle	39,584	-	-	39,584
Library Collections	287,792	-	-	287,792
Library Materials	147,540	-	-	147,540
Legacy Programs	112,060	-	112,060	-
Board	21,588	-	-	21,588
Miscellaneous	22	-	-	22
				-
Total Governmental Activities	<u>\$ 2,705,054</u>	<u>\$ 46,189</u>	<u>\$ 790,273</u>	<u>(1,868,592)</u>
General Revenues:				
Allotments from Participating Governments				1,849,214
Interest, Dividends, and Investments				<u>7,996</u>
Total General Revenues				<u>1,857,210</u>
CHANGE IN NET POSITION				(11,382)
Net Position - Beginning				5,479,388
Prior Period Adjustment				<u>(1,013,250)</u>
NET POSITION - ENDING				<u>\$ 4,454,756</u>

**KITCHIGAMI REGIONAL LIBRARY
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	GENERAL	SPECIAL REVENUE	TOTAL
ASSETS			
Cash and Cash Equivalents	\$ 3,043,185	\$ 45,970	\$ 3,089,155
Cash and Cash Equivalents - Designated	1,915,538	-	1,915,538
Prepaid Expenses	27,052	-	27,052
	<u>27,052</u>	<u>-</u>	<u>27,052</u>
Total Assets	<u>\$ 4,985,775</u>	<u>\$ 45,970</u>	<u>\$ 5,031,745</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts Payable	\$ 50,783	\$ -	\$ 50,783
Sales Tax Payable	873	-	873
Accrued Payroll	104,657	-	104,657
Accrued Compensated Absences	56,594	-	56,594
	<u>56,594</u>	<u>-</u>	<u>56,594</u>
Total Liabilities	<u>212,907</u>	<u>-</u>	<u>212,907</u>
DEFERRED INFLOWS OF RESOURCES			
	<u>-</u>	<u>45,970</u>	<u>45,970</u>
Fund Balance:			
Nonspendable	27,052	-	27,052
Restricted	178,224	-	178,224
Committed	1,915,538	-	1,915,538
Unassigned	2,652,054	-	2,652,054
	<u>2,652,054</u>	<u>-</u>	<u>2,652,054</u>
Total Fund Balances	<u>4,772,868</u>	<u>-</u>	<u>4,772,868</u>
Total Liabilities and Fund Balances	<u>\$ 4,985,775</u>	<u>\$ 45,970</u>	<u>\$ 5,031,745</u>

**KITCHIGAMI REGIONAL LIBRARY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2015**

	GENERAL	SPECIAL REVENUE	TOTAL
REVENUES			
Intergovernmental			
State Aid	\$ 641,221	\$ 112,060	\$ 753,281
Local Aid	1,849,214	-	1,849,214
Interest/Dividends/Investments	7,995	-	7,995
Sales	15,596	-	15,596
Automation	17,459	-	17,459
Donations/Refunds/Miscellaneous	50,126	-	50,126
	<u>2,581,611</u>	<u>112,060</u>	<u>2,693,671</u>
Total Revenue			
EXPENDITURES			
Current			
Library Operations	1,983,444	112,060	2,095,504
Building	18,466	-	18,466
Vehicle	23,165	-	23,165
Library Materials	147,540	-	147,540
Branch Collections	287,792	-	287,792
Board	21,588	-	21,588
Associate Service	10,000	-	10,000
Miscellaneous	22	-	22
Capital Outlay	135,410	-	135,410
	<u>2,627,427</u>	<u>112,060</u>	<u>2,739,487</u>
Total Expenditures			
NET (DECREASE) IN FUND BALANCE	(45,816)	-	(45,816)
Fund Balances - Beginning of Year	<u>4,818,684</u>	<u>-</u>	<u>4,818,684</u>
FUND BALANCES - END OF YEAR	<u><u>\$ 4,772,868</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,772,868</u></u>

**KITCHIGAMI REGIONAL LIBRARY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2015**

Total Fund Balances - Governmental Funds	\$ 4,772,868
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Total Net Position 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 Funds

GASB Statement No. 68 Accounting for the Net Pension Obligation is not reported in the Government Funds

Cost of Capital Assets	1,993,611
Accumulated Depreciation	(1,273,156)
GASB Statement No. 68 Prior Period Adjustment	(1,013,250)
GASB Statement No. 68 PERA Pension Expense Increase	<u>(25,317)</u>

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	<u><u>\$ 4,454,756</u></u>
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**KITCHIGAMI REGIONAL LIBRARY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES -
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2015**

Net (Decrease) in Fund Balance - Governmental Funds \$ (45,816)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Capital Outlays are reported in Governmental Funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as Depreciation Expense

GASB Statement No. 68 Accounting for the Net Pension Obligation is not reported in the Government Funds

Capital Outlays	135,410
Depreciation Expense	(75,659)
GASB Statement No. 68 Increase in PERA Pension Expense	<u>(25,317)</u>

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ (11,382)

NOTES TO FINANCIAL STATEMENTS

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Kitchigami Regional Library (the Library), a Minnesota Municipal Corporation, is an autonomous governmental unit, created by contractual agreement with various authorities that provides library services in Beltrami, Cass, Crow Wing, Hubbard, and Wadena counties. Funding is obtained from these counties and various cities located within these counties as detailed in the schedule of local intergovernmental revenue. Revenues are also received by grants in aid from the State of Minnesota.

The accounting policies of the Library conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

A. Reporting Entity

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Library's basic financial statements include both government-wide (reporting the Library as a whole) the fund financial statements (reporting the Library's major funds).

Entity-Wide Financial Statements

The entity-wide financial statements (i.e., the statement of net position and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting.

The Library's activities include providing Library services within its regional boundaries. All of the Library's activities are shown in one category (Governmental Activities). Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net position includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources and is reported in three parts – investment in capital assets; restricted; and unrestricted.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)**

Fund Financial Statements

The governmental fund financial statements (i.e., the balance sheet and statement of revenues, expenditures, and changes in fund balances) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenue to be available if they are collected within 60 days of 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.

State-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and are recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Library.

The Library reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the Library. It is used to account for financial resources except those required to be accounted for in another fund.

Special Revenue Fund – The Special Revenue Fund is used to account for the proceeds of the Minnesota Arts and Cultural Heritage Grant (Legacy Grant) which are legally restricted to expenditures for specified purposes.

C. Financial Statement Amounts

Bank Deposits and Investments – The Library has defined cash and cash equivalents to include cash on hand, demand deposits, certificates of deposit, money market funds, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

All trade receivables are shown net of an allowance for uncollectible amounts.

Capital Assets – Capital assets are recorded in the entity-wide financial statements, but are not reported in the fund financial statements. Capital assets are defined by the Library as assets with an initial cost of more than \$250 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Amounts (Continued)

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20-40 years
Furniture and Equipment	5-8 years
Improvements	20 years
Library Books and Materials	15 years

D. Compensated Absences

Full-time employees accumulate vacation leave which is payable upon termination. Sick leave can also be accumulated. This amount is not payable upon termination and the amount which will be used in future periods cannot be reasonably estimated, therefore, no liability has been recorded for sick leave.

All vacation pay is accrued when incurred in the Entity-Wide financial statements and the governmental funds.

E. Net Position

Net Position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the entity-wide financial statements. Investment in capital assets consists of capital assets, net of accumulation 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 entity-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

F. Fund Balance

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

Nonspendable – Represents amounts that cannot be spent due to form such as inventories and prepaid amounts. Also, long-term loan and notes receivables, and property held for resale would be reported here unless the proceeds are restricted, committed or assigned. This also includes amounts that must be maintained intact legally or contractually.

Restricted – Represents amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. Constraints are placed on the use of resources as either; externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions of enabling legislation.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Fund Balance (Continued)

Committed – Represents amounts committed for a specific purpose by the Library using the highest level of decision making authority (the Library's Board of Directors). It requires action by the same group to establish, modify, or rescind the commitments placed on the resources. *The committed account is not allowed a deficit balance.*

Assigned – Represents amounts assigned by the Library's intent to be used for a specific purpose, but are not restricted or committed. Intent is expressed by the Library's Board of Directors itself, or a body (budget or finance committee) or an official (director) to which the Board of Directors has delegated the authority to assign amounts to be used for specific purposes. The actions to remove or modify assignments are not as strict as for committed fund balances. *The assigned account is not allowed a deficit balance.*

Unassigned – Represents the residual classification for the General Fund and also reflects negative residual fund balances in other funds.

If resources from more than one fund balance classification could be spent, the Library will spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned, and unassigned.

The Board of Directors has formally adopted a fund balance policy for the General Fund. The Library's policy is to maintain a minimum unassigned fund balance of 30% of the current fiscal year's budgeted operating expenditures or a fund balance that is necessary to keep the Library from borrowing funds.

G. Summary of Significant Accounting Policies

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

H. New Accounting Pronouncements

GASB 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, is effective for the Library beginning with its year ending December 31, 2015. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. It also requires additional information be supplied in the note disclosures and required supplementary information sections.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. New Accounting Pronouncements (Continued)

GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment to GASB Statement No. 68*, is effective for the Library beginning with its year ending December 31, 2015. This statement amends paragraph 137 of Statement 68 such that, at transition, the Library recognizes a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability.

NOTE 2 DEPOSITS AND INVESTMENTS

A. Deposits

The Library maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is displayed on the financial statements as "Cash and Investments." Interest is allocated based on management's estimate of interest earned by each fund. In accordance with *Minnesota Statutes* the Library maintains deposits at financial institutions which are authorized by the Library's Board of Directors.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that in the event of a bank failure, the Library's deposits may not be recovered. The Library has a deposit policy for custodial credit risk which follows *Minnesota Statutes* for deposits.

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

The Federal Deposit Insurance Corporation (FDIC) deposit coverage limit for bank depositors is \$250,000. If the depository bank is located in the State of Minnesota, government depositors are eligible for two separate \$250,000 coverages: one for all time/savings accounts and one for all demand accounts. For deposits in banks outside the State of Minnesota, government depositors have a total coverage of \$250,000 for all demand and time/savings deposit accounts combined.

Authorized collateral includes:

- § U.S. government treasury bills, notes, or bonds;
- § issues of a U.S. government agency or instruments that are quoted by a recognized industry quotation service available to the government entity;
- § a general obligation of a state or local government, with taxing powers, rated "A" or better;
- § a revenue obligation of a state or local government, with taxing powers, rate "AA" or better;
- § unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity;
- § an irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank's public debt is rated "AA" or better by Moody's or Standard and Poor's; or
- § time deposits insured by any federal agency.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

Custodial Credit Risk (Continued)

	Bank Balance	Carrying Amount
Deposit balances at December 31, 2015, are as follows:	\$ 4,921,029	\$ 4,894,555

Following is a schedule of the total cash deposits of the Library at various financial institutions and the amounts insured or collateralized by securities held by the Library's agent in the Library's name:

	Pine River State Bank	1st National Bank - Walker	Total
Bank Balance	\$ 4,424,693	\$ 496,336	\$ 4,921,029
Less: FDIC Insurance	(500,000)	(250,000)	(750,000)
Uninsured Balance	3,924,693	246,336	4,171,029
Required Collateral	4,317,162	270,970	4,588,132
Fair Market Value of Collateral at December 31, 2015	4,843,736	298,487	5,142,223
Under Collateralized (Under 110% of Uninsured Deposits)	\$ -	\$ -	\$ -

Following is the change in the carrying amounts of cash balances:

DESCRIPTION	December 31, 2014	Net Increase	Net Decrease	December 31, 2015
Checking	\$ 559,523	\$ -	\$ 254,620	\$ 304,903
Money Market and Certificates of Deposit	4,280,565	309,087	-	4,589,652
Endowment Fund	111,727	-	1,589	110,138
Total	\$ 4,951,815	\$ 309,087	\$ 256,209	\$ 5,004,693

B. Investments

The Library has an investment policy and is permitted to invest its idle funds as authorized by Minnesota Statutes 118A.04 and 118A.05 as follows:

- § Governmental bonds, notes, bills, mortgages, and other securities, which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, excluding mortgage-backed securities defined as "high risk";
- § General obligations of a state or local government with taxing powers rated "A" or better by a national bond rating service;
- § Revenue obligations of a state or local government with taxing powers rated "AA" or better by a national bond rating service;
- § General obligations of the Minnesota Housing Finance Agency which was a moral obligation of the State of Minnesota and is rated "A" or better by a national bond rating service;

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

- § An obligation of a school district with an original maturity not exceeding 13 months and rated in the highest category by a national bond rating service or enrolled in the credit enhancement program;
- § Commercial papers issued by United States corporations or their Canadian subsidiaries that are rated in the highest quality category by at least two nationally recognized rating agencies, and matures in 270 days or less;
- § Time deposits fully insured by the Federal Deposit Insurance Corporation or bankers acceptances of United States banks;
- § High risk mortgage-backed securities that are interest only or principal only or a mortgage derivative security that has an average life greater than 10 years or securities that will have a price change of more than 17%;
- § Its own temporary obligations issued under Minn. Stat. §§ 429.091, subd. 7 (special assessments), 469.178 subd. 5 (tax increment bonds), or 475.61, subd. 6;
- § Funds held in a debt service fund may be used to purchase an obligation of an issue which is payable from the fund.

Interest Rate Risk

The risk is that changes in interest rates could adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Library manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities to meet cash requirements for ongoing operations.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the Library's policy to invest only in securities that meet the ratings requirements set by statute.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library is not exposed to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the Library's investment in a single issuer. The Library places no limit on the amount that it may invest in any one issuer.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 PREPAID EXPENSES

Prepaid expenses consisted of the following as of December 31, 2015:

Insurance Premiums	\$ 11,706
Library Materials	<u>15,346</u>
	<u>\$ 27,052</u>

NOTE 4 CAPITAL ASSETS

A summary of changes in Capital Assets is as follows:

	December 31, 2014	Increase	Decrease	December 31, 2015
<u>Assets Not Being Depreciated</u>				
Land	<u>\$ 34,566</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,566</u>
<u>Assets Being Depreciated</u>				
Buildings and Improvements	555,415	-	-	555,415
Vehicles	245,580	125,610	-	371,190
Furniture, Fixtures, and Equipment	481,358	9,800	10,790	480,368
Books and Materials (Collections)	683,030	-	130,958	552,072
Total Capital Assets Being Deprec.	<u>1,965,383</u>	<u>135,410</u>	<u>141,748</u>	<u>1,959,045</u>
Total Assets	1,999,949	135,410	141,748	1,993,611
Less: Accumulated Depreciation	<u>1,339,245</u>	<u>75,659</u>	<u>141,748</u>	<u>1,273,156</u>
Total Capital Assets (Net)	<u>\$ 660,704</u>	<u>\$ 59,751</u>	<u>\$ -</u>	<u>\$ 720,455</u>

Current year depreciation expense was allocated as follows:

	<u>Depreciation</u>
Buildings	\$ 14,373
Vehicles	16,419
Library Operations	44,867
Total	<u>\$ 75,659</u>

NOTE 5 OTHER ASSETS – ENDOWMENT FUND

The amount in this fund is in the possession of and invested by the Minnesota Library Foundation and its use is restricted by the grant agreement with the foundation.

NOTE 6 NET POSITION

A. Investment in Capital Assets

Investment in capital assets is determined as follows:

General Fund	<u>\$ 720,256</u>
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**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 6 NET POSITION (CONTINUED)

B. Restricted

Restricted funds, in the Statement of Net Position, represents amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. Constraints are placed on the use of resources as either; externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions of enabling legislation. Following is a list of the restricted funds and their balances at December 31, 2015:

Legacy Grant	\$ 199
Automation Repair and Replacement	206,683
Total	<u><u>\$ 206,882</u></u>

Following is a schedule of the automation repair and replacement balances allocated by location:

Branch	2014		2015			
	Balance	Interest	Capital	Revenue	Expense	Balance
Bemidji	\$ 23,779	\$ 60	\$ -	\$ 5,647	\$ -	\$ 29,486
Blackduck	12,876	32	-	289	-	13,197
Brainerd	41,674	105	-	4,659	-	46,438
Cass Lake	7,861	20	-	245	-	8,126
Kitchigami Regional Library	15,391	39	11,000	-	-	26,430
Longville	14,723	37	-	983	-	15,743
Park Rapids	8,229	21	-	3,601	-	11,851
Pine River	15,442	39	-	255	-	15,736
Wadena	23,727	60	-	1,374	-	25,161
Walker	14,074	35	-	406	-	14,515
Total	<u><u>\$ 177,776</u></u>	<u><u>\$ 448</u></u>	<u><u>\$ 11,000</u></u>	<u><u>\$ 17,459</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 206,683</u></u>

C. Unrestricted

Unrestricted funds, in the Statement of Net Position, are partially committed by the Board for specific purposes. Following is a schedule of unrestricted funds and balances at December 31, 2015.

Committed	
Automation	\$ 394,762
Outreach	52,635
Vehicle	117,591
Loan Security	31,347
Building Maintenance	40,968

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 6 NET POSITION (CONTINUED)

C. Unrestricted (Continued)

Committed (Continued)	
Software Accounting	25,306
Library Building	197,992
KRL Endowment Fund	110,138
Headquarters' Gift	277
Crow Wing County	253,210
Summer Reading	30,002
Sue Tricker Outreach	111,339
Gates Grant	19,119
Regional Library Telecommunications Aid	<u>387,022</u>
Total Committed	1,771,708
Undesignated	<u>1,755,910</u>
Total Unrestricted Funds	<u><u>\$ 3,527,618</u></u>

NOTE 7 STEWARDSHIP AND ACCOUNTABILITY

No budgetary disclosures required.

NOTE 8 RISK MANAGEMENT

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The Library purchases commercial insurance coverage for such risks.

NOTE 9 DEFINED BENEFIT PENSION PLAN

Public Employees Retirement Association (PERA)

Plan Description

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

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

Benefits Provided

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

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 9 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Public Employees Retirement Association (PERA) (Continued)

Benefits Provided (Continued)

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

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

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

Contributions

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

GERF Contributions - Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in calendar year 2015. In calendar year 2015, the Library was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The Library's contributions to the GERF for the year ended December 31, 2015, were \$86,691. The Library's contributions were equal to the required contributions as set by state statute.

Pension Costs

GERF Pension Costs - At December 31, 2015, the Library reported a liability of \$1,046,869 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Library's proportion of the net pension liability was based on the Library's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the Library's proportion was .0202% which was a decrease of .023% from its proportion measured as of June 30, 2014.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 9 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Public Employees Retirement Association (PERA) (Continued)

Pension Costs (Continued)

For the year ended December 31, 2015, the Library recognized pension expense of \$112,008 for its proportionate share of the GERF's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 52,780
Change in Actuarial Assumptions	-	-
Difference between projected and actual investment earnings	99,102	-
Contributions paid to PERA subsequent to the measurement date	43,013	-
Changes in Proportion	-	81,032
Total	\$ 142,115	\$ 133,812

\$43,013 reported as deferred outflows of resources related to pensions resulting from Library contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year Ended June 30:	Pension Expense Amount
2016	\$ (19,828)
2017	\$ (19,828)
2018	\$ (19,828)
2019	\$ 24,776
2020	\$ -
Thereafter	\$ -

Actuarial Assumptions

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

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

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 9 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Public Employees Retirement Association (PERA) (Continued)

Actuarial Assumptions (Continued)

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

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

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 9 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Public Employees Retirement Association (PERA) (Continued)

Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Library's proportionate share of the GERF net pension liability:	\$1,646,050	\$1,046,869	\$552,037

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 10 DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

	December 31,	
	Entity-Wide Statement of Net Position	Governmental Funds - Balance Sheet
Deferred Outflows of Resources Consisted of: The amounts shown in Note 9, Page 31, the Library's proportionate share of the GERF	<u>\$ 142,115</u>	<u>\$ -</u>
Deferred Inflows of Resources Consisted of: The amounts shown in Note 9, Page 31, the Library's proportionate share of the GERF	\$ 133,812	\$ -
Minnesota Legacy Grant Revenue Unearned	<u>45,970</u>	<u>45,970</u>
Total	<u>\$ 179,782</u>	<u>\$ 45,970</u>

NOTE 11 PRIOR PERIOD ADJUSTMENT

As a result of implementing GASB Statement No. 68 and GASB Statement No. 71, a prior period adjustment is required to recognize the beginning net pension liability and to account for contributions subsequent to the measurement period. The prior period adjustment reduces net position by \$1,013,250.

NOTE 12 CONTINGENCIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the State of Minnesota. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds.

The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time.

REQUIRED SUPPLEMENTARY INFORMATION

**KITCHIGAMI REGIONAL LIBRARY
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED DECEMBER 31, 2015**

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Beginning Budgetary Fund Balances - January 1	\$ 4,502,635	\$ 4,502,635	\$ 4,502,635	\$ -
REVENUES				
Intergovernmental				
State	746,100	746,100	641,221	(104,879)
Local	1,849,214	1,849,214	1,849,214	-
Interest, Dividends, and Investments	26,000	26,000	7,995	(18,005)
Sales	30,000	30,000	15,596	(14,404)
Automation	17,459	17,459	17,459	-
Donations/Refunds/Miscellaneous	-	-	50,126	50,126
Total Revenues	<u>2,668,773</u>	<u>2,668,773</u>	<u>2,581,611</u>	<u>(87,162)</u>
Amounts Available for Appropriation	<u>7,171,408</u>	<u>7,171,408</u>	<u>7,084,246</u>	<u>(87,162)</u>
EXPENDITURES				
Salaries				
Branch Library	984,201	984,201	913,717	70,484
Regional	330,932	330,932	265,480	65,452
Outreach/Mobile Library	45,235	45,235	45,237	(2)
Employee Benefits	523,807	523,807	460,813	62,994
Library Operations	373,843	373,843	302,082	71,761
Building	19,880	19,880	18,466	1,414
Vehicle/Outreach	34,920	34,920	29,080	5,840
Library Materials	153,827	153,827	147,540	6,287
Branch Collections	274,237	274,237	287,792	(13,555)
Automation Repair & Replacement	11,000	11,000	-	11,000
Board	82,000	82,000	21,588	60,412
Miscellaneous	7,000	7,000	22	6,978
Associate Service	19,379	19,379	10,000	9,379
Capital Outlay	96,693	96,693	125,610	(28,917)
Total Expenditures	<u>2,956,954</u>	<u>2,956,954</u>	<u>2,627,427</u>	<u>329,527</u>
BUDGETARY FUND BALANCES - DECEMBER 31	<u>\$ 4,214,454</u>	<u>\$ 4,214,454</u>	<u>\$ 4,456,819</u>	<u>\$ 242,365</u>

**KITCHIGAMI REGIONAL LIBRARY
BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2015**

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Beginning Budgetary Fund Balances - January 1	\$ -	\$ -	\$ -	\$ -
REVENUES				
Intergovernmental				
State	129,357	129,357	112,060	(17,297)
Total Revenues	<u>129,357</u>	<u>129,357</u>	<u>112,060</u>	<u>(17,297)</u>
Amounts Available for Appropriation	<u>129,357</u>	<u>129,357</u>	<u>112,060</u>	<u>(17,297)</u>
EXPENDITURES				
Legacy Programs	114,123	114,123	112,060	2,063
Total Expenditures	<u>114,123</u>	<u>114,123</u>	<u>112,060</u>	<u>2,063</u>
BUDGETARY FUND BALANCES - DECEMBER 31	<u>\$ 15,234</u>	<u>\$ 15,234</u>	<u>\$ -</u>	<u>\$ (15,234)</u>

SUPPLEMENTARY INFORMATION

**KITCHIGAMI REGIONAL LIBRARY
 DETAILED REVENUE AND EXPENSE SCHEDULE - ENTITY-WIDE
 YEAR ENDED DECEMBER 31, 2015
 (WITH COMPARATIVE ACTUAL AMOUNTS YEAR ENDED DECEMBER 31, 2014)**

	2015	2014
INTERGOVERNMENTAL AND LOCAL REVENUE		
State		
State Aid	\$ 641,221	\$ 756,095
Special/Grants	112,060	104,163
Total State	753,281	860,258
County		
Beltrami	338,395	328,395
Cass	342,336	342,336
Crow Wing	509,128	509,127
Hubbard	200,000	190,693
Wadena	90,342	82,494
Total County	1,480,201	1,453,045
City		
Bemidji	126,198	122,522
Blackduck	14,693	14,265
Brainerd	78,200	77,341
Cass Lake	7,508	4,290
Longville	8,498	8,250
Park Rapids	43,293	42,031
Pine River	12,924	12,548
Wadena	63,828	61,969
Walker	13,871	13,467
Total City	369,013	356,683
Total Intergovernmental and Local Revenue	2,602,495	2,669,986
OTHER REVENUE		
Interest on Savings	6,483	16,203
Endowment Investment Income	1,513	6,977
Automation	17,459	17,459
Sales		
Copies and Faxes	15,596	15,452
Miscellaneous Gifts and Other	50,126	48,107
Total Other Revenue	91,177	104,198
Total Revenues	\$ 2,693,672	\$ 2,774,184

**KITCHIGAMI REGIONAL LIBRARY
 DETAILED REVENUE AND EXPENSE SCHEDULE - ENTITY-WIDE
 YEAR ENDED DECEMBER 31, 2015
 (WITH COMPARATIVE ACTUAL AMOUNTS YEAR ENDED DECEMBER 31, 2014)
 (CONTINUED)**

	2015	2014
EXPENSES		
Library Materials		
Branch Collections	\$ 287,792	\$ 278,982
E-Materials	95,633	84,119
Periodicals and Papers	18,929	15,601
Shared Databases	32,978	73,400
Total Library Materials	435,332	452,102
Library Operations		
Automation Operating Costs	82,222	76,604
Communications/Dataline/Fax	79,170	54,353
Postage	6,848	9,235
Library Supplies	68,922	72,278
Office Supplies	5,142	4,846
Shared Processing Cost	20,948	20,546
Interlibrary Service Maintenance	-	36,750
Winter Reading Program	5,157	4,797
Other	1,830	981
Total Library Operations	270,239	280,390
Vehicle		
Delivery Van/Staff Van/Mobile Library Gas and Oil	11,644	19,457
Delivery Van/Staff Van/Mobile Library Repairs	5,155	2,580
Vehicles/Mobile Library Insurance	6,366	5,447
Total Vehicle	23,165	27,484
Building		
Insurance - Contents and Liability	5,232	4,882
Repairs and Maintenance	5,262	7,651
Electric	5,065	5,360
Gas	1,149	1,537
Sanitation/Disposal	943	989
Sewer	504	504
Water	311	273
Total Building	18,466	21,196
Board		
Meetings	4,441	3,678
Professional Fees and Dues/Special Projects	14,442	15,982
Insurance	2,705	2,705
Total Board	21,588	22,365
Legacy Program Expenses	112,060	104,163

**KITCHIGAMI REGIONAL LIBRARY
 DETAILED REVENUE AND EXPENSE SCHEDULE - ENTITY-WIDE
 YEAR ENDED DECEMBER 31, 2015
 (WITH COMPARATIVE ACTUAL AMOUNTS YEAR ENDED DECEMBER 31, 2014)
 (CONTINUED)**

	2015	2014
EXPENSES (CONTINUED)		
Branch Salaries		
Bemidji	222,513	236,107
Blackduck	37,585	36,135
Brainerd	289,575	304,239
Cass Lake	28,631	28,188
Longville	33,346	32,790
Park Rapids	119,411	121,468
Pine River	62,744	62,324
Wadena	67,705	69,035
Walker	52,207	59,392
Total Branch Salaries	913,717	949,678
Regional Salaries		
System Support	187,364	154,354
Technical Services	38,110	43,033
Interlibrary Loan	39,566	38,096
Mobile Library Salaries	24,524	42,671
Delivery	20,711	19,223
Total Regional Salaries	310,275	297,377
Employee Benefits		
FICA	94,858	96,833
Health Benefits	250,799	169,223
PERA	112,008	85,886
Workers' Compensation	12,006	11,173
Staff Development/Conferences/Vacation	26,367	5,295
Unemployment	3,432	3,516
Total Employee Benefits	499,470	371,926
Miscellaneous		
Meetings	-	-
Travel	1,569	1,037
Investment Fees/Admin	1,366	1,039
Recruiting	10,390	3,824
Associate Service	10,000	10,000
Investment Losses	1,736	-
Other	22	60
Total Miscellaneous	25,083	15,960
Depreciation		
Books and Materials	27,833	45,557
Buildings and Equipment	47,826	41,157
Total Depreciation	75,659	86,714
 Total Expenses	 \$ 2,705,054	 \$ 2,629,355

**KITCHIGAMI REGIONAL LIBRARY
SCHEDULE OF MINNESOTA LEGACY GRANT FUNDING
YEARS ENDED DECEMBER 31,**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Cash Reconciliation							
Beginning Cash	\$ (8,365)	\$ 5,221	\$ (54,594)	\$ 62,755	\$ 127,094	\$ 55,601	\$ -
Cash Receipts	166,689	90,330	193,552	121,962	189,438	269,708	80,486
Cash Expenditures	(112,354)	(103,916)	(133,737)	(239,311)	(253,777)	(198,215)	(24,885)
Ending Cash	<u>\$ 45,970</u>	<u>\$ (8,365)</u>	<u>\$ 5,221</u>	<u>\$ (54,594)</u>	<u>\$ 62,755</u>	<u>\$ 127,094</u>	<u>\$ 55,601</u>
Governmental Funds Reconciliation							
Cash Receipts	\$ 166,689	\$ 90,330	\$ 193,552	\$ 121,962	\$ 189,438	\$ 269,708	\$ 80,486
Prior Year Grant Receivable	(57,455)	(57,455)	(85,606)	(40,654)	(81,907)	(53,658)	-
Grant Receivable	-	57,455	57,455	85,606	40,654	81,907	53,658
Prior Year Deferred Revenue	48,796	62,629	-	-	-	-	-
Deferred Revenue	(45,970)	(48,796)	(62,629)	-	-	-	-
Revenue	<u>112,060</u>	<u>104,163</u>	<u>102,772</u>	<u>166,914</u>	<u>148,185</u>	<u>297,957</u>	<u>134,144</u>
Cash Expenditures	112,354	103,916	133,737	239,311	253,777	198,215	24,885
Prior Year Accounts Payable	(294)	(47)	(1,828)	(9,646)	(4,039)	(9,974)	-
Accounts Payable	-	294	47	1,828	9,646	4,039	9,974
Governmental Funds Expense	<u>112,060</u>	<u>104,163</u>	<u>131,956</u>	<u>231,493</u>	<u>259,384</u>	<u>192,280</u>	<u>34,859</u>
Governmental Funds Increase (Decrease)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (29,184)</u>	<u>\$ (64,579)</u>	<u>\$ (111,199)</u>	<u>\$ 105,677</u>	<u>\$ 99,285</u>
Governmental Funds Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,184</u>	<u>\$ 93,763</u>	<u>\$ 204,962</u>	<u>\$ 99,285</u>
Entity-Wide Reconciliation							
Capital Assets Purchased	\$ -	\$ -	\$ -	\$ 1,269	\$ 3,468	\$ -	\$ -
Depreciation	400	400	667	2,378	693	-	-
Entity-Wide Expense	<u>112,460</u>	<u>104,563</u>	<u>132,623</u>	<u>232,602</u>	<u>256,609</u>	<u>192,280</u>	<u>34,859</u>
Entity-Wide Increase (Decrease)	<u>(400)</u>	<u>(400)</u>	<u>(29,851)</u>	<u>(65,688)</u>	<u>(108,424)</u>	<u>105,677</u>	<u>99,285</u>
Net Assets (Restricted)	<u>\$ 199</u>	<u>\$ 599</u>	<u>\$ 999</u>	<u>\$ 30,850</u>	<u>\$ 96,538</u>	<u>\$ 204,962</u>	<u>\$ 99,285</u>

**KITCHIGAMI REGIONAL LIBRARY
SCHEDULE OF REGIONAL LIBRARY TELECOMMUNICATION AID – CASH BASIS
YEARS ENDED DECEMBER 31,**

	<u>TOTAL</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
REVENUE	<u>\$ 916,170</u>	<u>\$ 6,844</u>	<u>\$ 137,578</u>	<u>\$ 246,130</u>	<u>\$ 107,105</u>	<u>\$ 103,794</u>	<u>\$ 50,856</u>	<u>\$ 111,404</u>	<u>\$ 152,459</u>
EXPENSES									
Priority 1									
Datalines	331,128	44,552	47,113	41,005	43,673	43,089	43,098	44,694	23,904
Telephone	138,701	24,387	16,820	15,413	16,083	18,026	17,105	16,540	14,327
Remote Access	1,816	312	312	312	312	479	89	-	-
Internet Access	9,091	-	6,712	360	2,019	-	-	-	-
Priority 2	-	-	-	-	-	-	-	-	-
Internal Connections	48,412	14,836	-	8,531	25,045	-	-	-	-
Total Expenses	<u>529,148</u>	<u>84,087</u>	<u>70,957</u>	<u>65,621</u>	<u>87,132</u>	<u>61,594</u>	<u>60,292</u>	<u>61,234</u>	<u>38,231</u>
REVENUES OVER (UNDER) EXPENSES	<u>\$ 387,022</u>	<u>\$ (77,243)</u>	<u>\$ 66,621</u>	<u>\$ 180,509</u>	<u>\$ 19,973</u>	<u>\$ 42,200</u>	<u>\$ (9,436)</u>	<u>\$ 50,170</u>	<u>\$ 114,228</u>

COMPLIANCE REPORT SECTION



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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 AND MINNESOTA LEGAL COMPLIANCE

To the Board of Directors
Kitchigami Regional Library
Pine River, 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, each major fund, and the aggregate remaining fund information of the Kitchigami Regional Library, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated July 25, 2016.

Internal Control Over Financial Reporting

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

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. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control as described in the accompanying Schedule of Findings and Recommendations as item 15-01 that we consider to be a significant deficiency:

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Kitchigami Regional Library in a separate letter dated July 25, 2016.

Minnesota Legal Compliance

The Minnesota Legal Compliance Audit Guide for Other Political Subdivisions, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the Library has no tax increment districts.

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

Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Library's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* is considering the Library's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.



Justin, Clasen & Company, Ltd.
Certified Public Accountants

Pequot Lakes, Minnesota
July 25, 2016

**KITCHIGAMI REGIONAL LIBRARY
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2015**

INTERNAL CONTROL OVER FINANCIAL REPORTING

Significant Deficiency

2015-01 Internal Control/Segregation of Duties

Conditions: During our audit we reviewed procedures over transaction cycles related to cash disbursements, billing, and payroll and found the Library to have limited segregation of duties.

Criteria: There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. No one person should have control of two or more of these responsibilities.

Cause: The bookkeeper maintains and controls the check stock, prepares checks, records disbursements, initiates wire transfers, and prepares the bank reconciliation.

Effect: The existence of this limited segregation of duties increases the risk of misstatement or fraud.

Recommendation: While we recognize the number of staff is not large enough to eliminate these deficiencies entirely, we believe the risk has been reduced with better monitoring through the Board of Directors reviewing cancelled checks and unopened bank statements.

The Library should also be reminded of their duties over finance at least annually. Some typical monitoring duties would include the following tasks:

- ◆ Claims approval is an important control and should be at the front of the meeting to ensure that the Board of Directors reviews the claims closely.
- ◆ A thorough review of budget versus actual reporting and narrative at least quarterly.
- ◆ Monitor progress over the development of documented policies and procedures.
- ◆ The check sequence should be reported in each set of approved minutes. The Board of Directors should review the order of checks approved to ensure that they move in sequence and any gaps in the numbers are explained.
- ◆ Consider personnel policies that require someone else to fill finance duties for a period of time. A mandatory vacation period of one week for all finance staff and distribution of their duties for that week is often recommended.

Management Response: The Board of Directors reviews all checks on a bi-monthly basis and approves these by check sequence. A summary statement compares the actual expense and revenues to the budgeted expense and revenues. This process is incorporated in the approval of the consent agenda.