

KITCHIGAMI REGIONAL LIBRARY

FINANCIAL STATEMENTS

DECEMBER 31, 2017

KITCHIGAMI REGIONAL LIBRARY

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INTRODUCTORY SECTION

**KITCHIGAMI REGIONAL LIBRARY
OFFICIAL DIRECTORY
DECEMBER 31, 2017**

POSITION	NAME
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OFFICIALS

Chair	Cass County	Neal Gaalswyk (County Commissioner)
Vice Chair	Crow Wing County	Paul Thiede (County Commissioner)
Secretary	City of Brainerd	Mary Koep
Treasurer	Wadena County	Jim Hofer
Director		Marian Ridge

DIRECTORS

Reed Olson (County Commissioner)	Beltrami County	Nancy Erickson	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
		John McKinney	City of Park Rapids
		Tony DeSanto	City of Pine River
		George Deiss	City of Wadena
		Anne McMurray	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

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, 2017, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

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 June 5, 2018, 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 solely 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 effectiveness of the Library's 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 & Consultants

Pequot Lakes, Minnesota
June 5, 2018

**KITCHIGAMI REGIONAL LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

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, 2017. This discussion should be read in conjunction with the Library's financial statements which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements consist of three parts: (1) entity-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other required supplementary information.

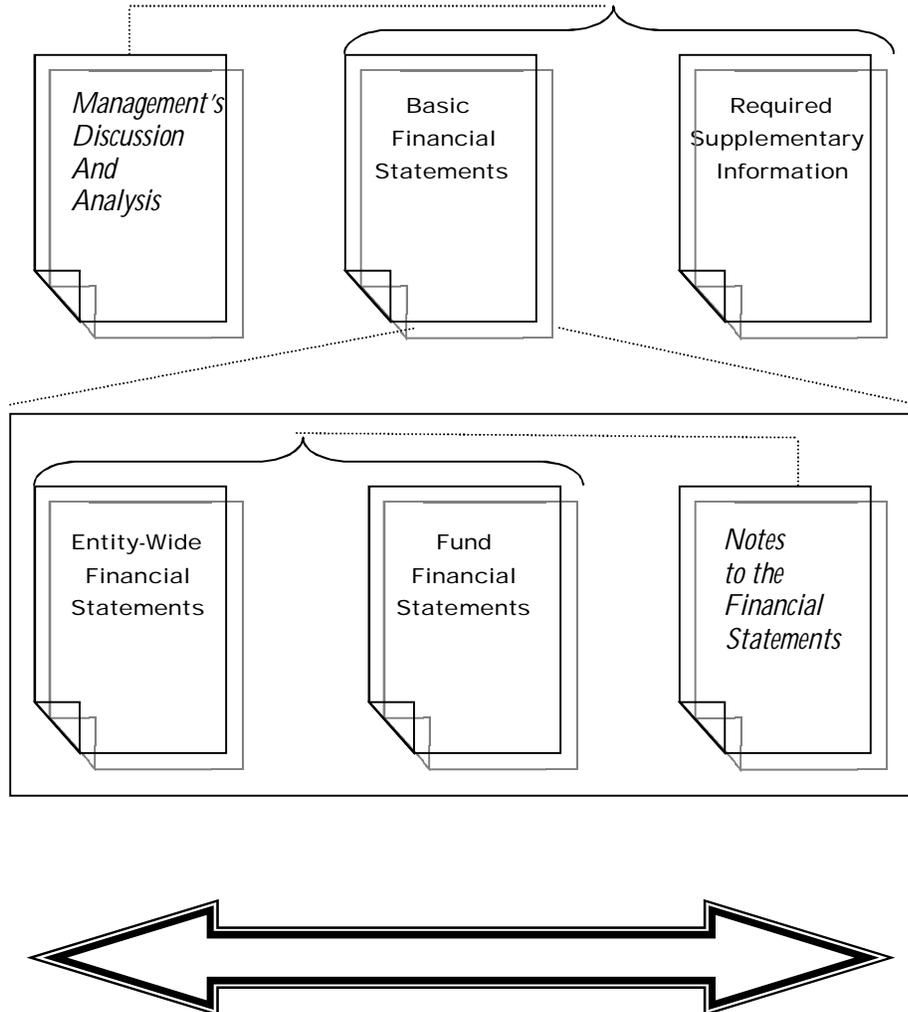
- The first two statements are the Statement of Net Position and the Statement of Activities which are *entity-wide financial statements* that provide both short-term and long-term information about the Library's overall financial status.
- The remaining statements are *fund financial statements* that 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, 2017**

The following shows how the various parts of this annual report are arranged and relate 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, 2017**

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 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 or long-term liabilities 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 are designed to provide readers with a broad overview of the Library's finances in a manner similar to private-sector business. The statement of net position includes all of the Library's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. 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 deferred outflows of resources, and liabilities and deferred inflows of resources – 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, 2017**

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 in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds as listed in the Table of Contents. 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 and the committed funds established for specific services, are analyzed in the fund balance note to 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

The significant changes in revenues were:

- Donations for Library materials are not budgeted but are a significant factor in total revenue. 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 2017, the Library was holding \$31,155 in unexpended donations for branch library computers, \$30,459 in donations for collections, and \$33,018 in unexpended "lost and paid" revenue on behalf of the branch libraries.
- Interest income increased slightly.
- Regional Library Basic System Support, the core funding for regional library operations, increased slightly for fiscal year 2017 which benefited the first half of 2017 for the Library.

**KITCHIGAMI REGIONAL LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

The Library Highlights (Continued)

The significant changes in revenues were: (Continued)

- Regional library telecommunications aid grant is stable at a lower level due to revision of the state formula.
- The Library received Arts and Cultural Heritage (Legacy Amendment) funds during 2017 for the state's fiscal years 2017 and 2018.
- Revenue for service charges such as lost and damaged books and other materials increased slightly in 2017.

The significant changes in expenditures were:

- Expenditures for special regional and branch Library programs 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 \$12,000 to spend on library materials; the other expenditures for these libraries include personnel and vehicle costs in interlibrary loans and delivery programs.

The Library as a Whole

- The Library's net position increased by \$334,487 this year to \$4,721,343 compared to a decrease of \$67,900 in 2016. A significant amount of revenue is restricted to use in special program areas such as legacy amendment programs and telecommunications.
- The Library's primary source of revenue was city and county levies, which represents 69% of total revenue in 2017 and 2016. State basic aid, telecommunications, and special grants represent 27% of total revenue for 2017 and 2016.
- Employee costs, which represent 67% of the Library's expenses, decreased to \$1,646,467 from \$1,712,081 in 2016.
- Library Materials, including Branch Collections expense, was the second largest expense category; at \$412,600, it is 18% of the total expenses.

**KITCHIGAMI REGIONAL LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

The Library as a Whole (Continued)

- Legacy Programs expense was the fifth largest expense category; at \$54,983, it is 3% of the total expenses.
- The operational expenditures supported circulation of 663,036 items in 2017, a 4.0% decrease, and approximately 19,250 interlibrary loan items were borrowed and loaned. At the end of 2017, the Library's collections contained approximately 9,016 shared items and 321,621 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 was stable but use of e-audiobooks increased by 60%.

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

Net Position

	December 31,	
	2017	2016
Current Assets	\$ 3,801,718	\$ 3,357,601
Capital Assets (Net)	582,982	600,356
Assets - Designated	1,745,630	1,763,175
Total Assets	6,130,330	5,721,132
Deferred Outflows of Resources	521,057	634,284
Current Liabilities	143,298	189,753
Long-Term Liabilities	1,236,680	1,518,347
Total Liabilities	1,379,978	1,708,100
Deferred Inflow of Resources	550,066	260,460
Net Position		
Net Investment in Capital Assets	582,982	600,356
Restricted	256,525	235,618
Unrestricted	3,881,836	3,550,882
Total Net Position	\$ 4,721,343	\$ 4,386,856

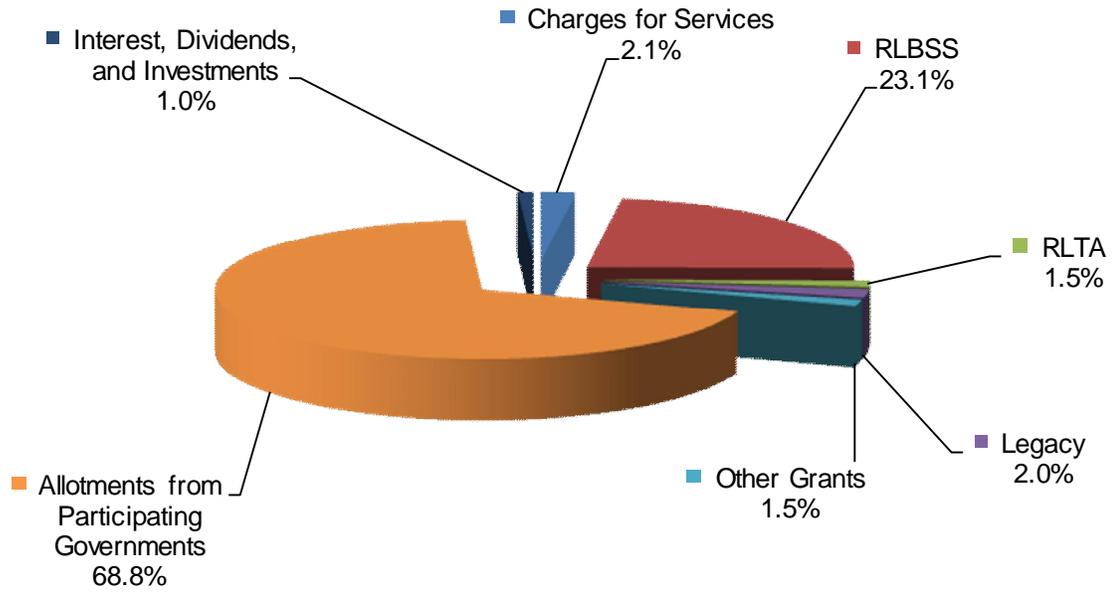
**KITCHIGAMI REGIONAL LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

Changes in Net Position

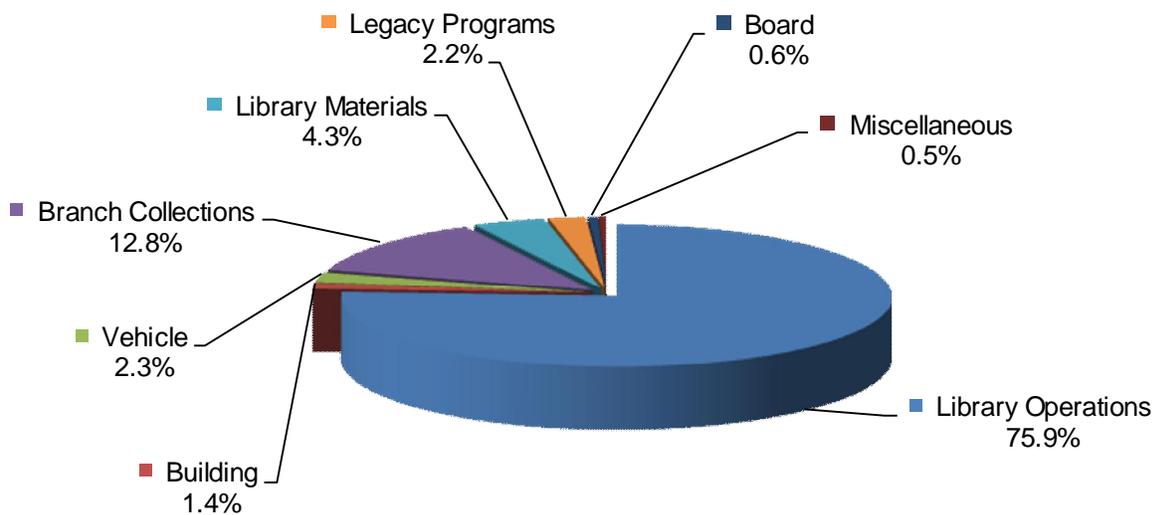
	<u>Year ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
REVENUES		
Program		
Charges for Services	\$ 58,683	\$ 46,428
Regional Library Basic System Support Grant	643,062	637,308
Regional Library Telecommunications Aid Grant	40,991	40,218
Legacy Grant	54,983	69,429
Other Grants & Contributions	40,630	50,319
Loss on Disposal of Assets	(4,687)	-
General		
Allotments from Participating Governments	1,924,207	1,904,008
Interest, Dividends, and Investments	26,587	14,881
Total Revenues	<u>2,784,456</u>	<u>2,762,591</u>
EXPENSES		
Library Operations	1,857,194	2,131,716
Building	34,622	31,936
Vehicle	57,553	46,028
Branch Collections	314,247	343,330
Library Materials	105,102	162,661
Legacy Programs	54,983	69,628
Board	14,268	35,192
Associate Service	12,000	10,000
Total Expenses	<u>2,449,969</u>	<u>2,830,491</u>
CHANGE IN NET POSITION	334,487	(67,900)
Net Position - Beginning	<u>4,386,856</u>	<u>4,454,756</u>
NET POSITION - ENDING	<u>\$ 4,721,343</u>	<u>\$ 4,386,856</u>

**KITCHIGAMI REGIONAL LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

Governmental Activity Revenues by Source



Governmental Activities Expenses by Type



**KITCHIGAMI REGIONAL LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

Capital Assets and Debt

At the end of 2017, the Library had a net capital assets investment of \$582,982 which consisted of its headquarters building, furniture and equipment, vehicles, and outreach 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 2017 were slightly lower 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.

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, 2017**

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS	
Cash and Cash Equivalents	\$ 3,552,586
Cash and Cash Equivalents - Designated	1,745,630
Accounts Receivable	22,296
Investment - Minnesota Community Foundation	129,500
Prepaid Expenses	96,442
Interest Receivable	894
Capital Assets:	
Land	30,000
Buildings and Improvements	587,168
Vehicles	352,089
Furniture, Fixtures, and Equipment	336,009
Library Collections	324,251
Less Accumulated Depreciation	<u>(1,046,535)</u>
Total Assets	<u>6,130,330</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>521,057</u>
LIABILITIES	
Accounts Payable	34,521
Sales Tax Payable	877
Accrued Payroll	107,900
Long-Term Liabilities:	
Accrued Compensated Absences	68,420
Net Pension Liability	<u>1,168,260</u>
Total Liabilities	<u>1,379,978</u>
DEFERRED INFLOWS OF RESOURCES	<u>550,066</u>
NET POSITION	
Net Investment in Capital Assets	582,982
Restricted	256,525
Unrestricted	<u>3,881,836</u>
Total Net Position	<u><u>\$ 4,721,343</u></u>

**KITCHIGAMI REGIONAL LIBRARY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		NET (EXPENSE)
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	REVENUE AND CHANGES IN NET POSITION
				TOTAL GOVERNMENTAL ACTIVITIES
Governmental Activities:				
Library Operations	\$ 1,857,194	\$ 58,683	\$ 724,683	\$ (1,073,828)
Building	34,622	-	-	(34,622)
Vehicle	57,553	-	-	(57,553)
Branch Collections	314,247	-	-	(314,247)
Library Materials	105,102	-	-	(105,102)
Legacy Programs	54,983	-	54,983	-
Board	14,268	-	-	(14,268)
Associate Service	12,000	-	-	(12,000)
				-
Total Governmental Activities	<u>\$ 2,449,969</u>	<u>\$ 58,683</u>	<u>\$ 779,666</u>	<u>(1,611,620)</u>
General Revenues:				
Allotments from Participating Governments				1,924,207
Interest, Dividends, and Investments				26,587
Loss on Disposal of Assets				(4,687)
				<u>1,946,107</u>
Total General Revenues				<u>1,946,107</u>
CHANGE IN NET POSITION				334,487
Net Position - Beginning				<u>4,386,856</u>
NET POSITION - ENDING				<u>\$ 4,721,343</u>

**KITCHIGAMI REGIONAL LIBRARY
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	GENERAL	SPECIAL REVENUE	TOTAL
ASSETS			
Cash and Cash Equivalents	\$ 3,486,341	\$ 66,245	\$ 3,552,586
Cash and Cash Equivalents - Designated	1,745,630	-	1,745,630
Accounts Receivable	22,296	-	22,296
Investment - Minnesota Community Foundation	129,500	-	129,500
Prepaid Expenses	96,442	-	96,442
Interest Receivable	894	-	894
	<u>5,481,103</u>	<u>66,245</u>	<u>5,547,348</u>
Total Assets			
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts Payable	\$ 34,521	\$ -	\$ 34,521
Sales Tax Payable	877	-	877
Accrued Payroll	107,900	-	107,900
Accrued Compensated Absences	68,420	-	68,420
	<u>211,718</u>	<u>-</u>	<u>211,718</u>
Total Liabilities			
DEFERRED INFLOWS OF RESOURCES			
	<u>-</u>	<u>66,245</u>	<u>66,245</u>
Fund Balance:			
Nonspendable	96,442	-	96,442
Restricted	256,525	-	256,525
Committed	1,745,630	-	1,745,630
Unassigned	3,170,788	-	3,170,788
	<u>5,269,385</u>	<u>-</u>	<u>5,269,385</u>
Total Fund Balances			
Total Liabilities and Fund Balances	<u>\$ 5,481,103</u>	<u>\$ 66,245</u>	<u>\$ 5,547,348</u>

**KITCHIGAMI REGIONAL LIBRARY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2017**

Total Fund Balances - Governmental Funds	\$ 5,269,385
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	
Cost of Capital Assets	1,629,518
Accumulated Depreciation	(1,046,535)
GASB Statement No. 68 Accounting for the Net Pension Obligation is not reported in the Government Funds	
Net Pension Liability	(1,168,260)
Deferred Outflows Related to the Net Pension Liability	521,057
Deferred Inflows Related to the Net Pension Liability	<u>(483,822)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	<u><u>\$ 4,721,343</u></u>

**KITCHIGAMI REGIONAL LIBRARY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2017**

	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>TOTAL</u>
REVENUES			
Intergovernmental			
State Aid	\$ 691,649	\$ 54,983	\$ 746,632
Local Aid	1,924,207	-	1,924,207
Interest, Dividends, and Investments	26,587	-	26,587
Sales	58,683	-	58,683
Automation	17,459	-	17,459
Donations, Refunds, and Miscellaneous	15,151	-	15,151
	<u>2,733,736</u>	<u>54,983</u>	<u>2,788,719</u>
Total Revenues			
EXPENDITURES			
Current			
Library Operations	1,831,516	-	1,831,516
Building	18,043	-	18,043
Vehicle	32,159	-	32,159
Branch Collections	360,105	-	360,105
Library Materials	105,102	-	105,102
Legacy Program	-	54,983	54,983
Board	14,268	-	14,268
Associate Service	12,000	-	12,000
	<u>2,373,193</u>	<u>54,983</u>	<u>2,428,176</u>
Total Expenditures			
NET CHANGE IN FUND BALANCE	360,543	-	360,543
Fund Balances - Beginning of Year	<u>4,908,842</u>	<u>-</u>	<u>4,908,842</u>
FUND BALANCES - END OF YEAR	<u>\$ 5,269,385</u>	<u>\$ -</u>	<u>\$ 5,269,385</u>

**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, 2017**

Net Increase in Fund Balance - Governmental Funds	\$ 360,543
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	
Capital Outlay, Net of Disposals	52,607
Disposal of Assets	(4,687)
Depreciation Expense	(65,293)
GASB Statement No. 68 Accounting for the Net Pension Obligation is not reported in the Government Funds	
Change in the Net Pension Liability and Related Deferred Amounts	(8,683)
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES	\$ 334,487

NOTES TO FINANCIAL STATEMENTS

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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 entity-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 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 – net investment in capital assets; restricted; and unrestricted.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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 operating fund of the Library which is used to account for financial resources except those required to be accounted for in another fund.

Special Revenue Fund – 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 original maturities of three months or less from the date of acquisition. 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 \$1,000 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 acquisition 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, 2017**

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	15-39 years
Furniture, Equipment, and Vehicles	5-10 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. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the entity-wide financial statements 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 – 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 – 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, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Fund Balance (Continued)

Committed – 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.

Assigned – 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. There is no assigned fund balance at December 31, 2017.

Unassigned – Amounts that have not been restricted, committed, or assigned to a specific purpose in the General Fund. Other funds may also report a negative unassigned fund balance if the total nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.

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 Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and reporting issues related to fair value measurements. It provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. No restatement is required as a result of implementing this statement.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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 Cash Equivalents or 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 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 treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

	Bank Balance	Carrying Amount
Deposit balances at December 31, 2017, are as follows:	<u>\$ 5,298,889</u>	<u>\$ 5,298,216</u>

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:

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

Custodial Credit Risk (Continued)

	<u>Pine River State Bank</u>	<u>1st National Bank - Walker</u>	<u>Security Bank USA</u>
Bank Balance at December 31, 2017	\$ 4,795,905	\$ 26,606	\$ 476,378
Less: FDIC Insurance	<u>(500,000)</u>	<u>(250,000)</u>	<u>(250,000)</u>
Uninsured Balance	<u>4,295,905</u>	<u>-</u>	<u>226,378</u>
Required Collateral	4,725,496	-	249,016
Fair Market Value of Collateral at December 31, 2017	<u>4,833,041</u>	<u>-</u>	<u>235,000</u>
Under Collateralized (Under 110% of Uninsured Deposits) at December 31, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (14,016)</u>

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

<u>DESCRIPTION</u>	<u>December 31, 2016</u>	<u>Net Increase</u>	<u>Net Decrease</u>	<u>December 31, 2017</u>
Checking	\$ 439,326	\$ 327,461	\$ -	\$ 766,787
Money Market and Certificates of Deposit	4,544,666	-	13,237	4,531,429
Total	<u>\$ 4,983,992</u>	<u>\$ 327,461</u>	<u>\$ 13,237</u>	<u>\$ 5,298,216</u>

B. Investments

The Library may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

- § 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" by Minn. Stat. § 118A.04, Subd.6;
- § mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- § general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- § bankers' acceptances of United States banks;
- § commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- § with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Interest Rate Risk

The risk 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 can manage 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

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

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.

Concentration of Credit Risk

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.

Valuation of Library Investments

The Library reports its investments at fair value. The fair value of securities in the Library's investments is based on quoted market prices.

The following table categorizes fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets and liabilities. Level 1 inputs are quoted prices for identical assets or liabilities in active markets at the date of measurement; Level 2 inputs are significant other directly or indirectly observable inputs other than quoted prices; and Level 3 inputs are significant unobservable inputs. The Library had the following fair value measurements as of December 31, 2017:

	<u>Level 3</u>
Minnesota Community Foundation (MCF)	<u>\$ 129,500</u>

Fair value measurement as of December 31, 2017, was related to its investment in a multi-asset endowment portfolio maintained by the Minnesota Community Foundation. This investment is valued using significant unobservable inputs of the underlying investments (Level 3 inputs).

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.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 PREPAID EXPENSES

Prepaid expenses consisted of the following as of December 31, 2017:

Insurance Premiums	\$ 23,525
Library Materials	<u>72,917</u>
	<u>\$ 96,442</u>

NOTE 4 CAPITAL ASSETS

A summary of changes in Capital Assets is as follows:

	December 31, 2016	Increase	Decrease	December 31, 2017
<u>Assets Not Being Depreciated</u>				
Land	<u>\$ 34,566</u>	<u>\$ -</u>	<u>\$ 4,566</u>	<u>\$ 30,000</u>
<u>Assets Being Depreciated</u>				
Buildings and Improvements	587,168	-	-	587,168
Vehicles	352,089	-	-	352,089
Furniture, Fixtures, and Equipment	510,383	-	174,374	336,009
Books and Materials (Collections)	271,645	52,606	-	324,251
Total Capital Assets Being Deprec.	<u>1,721,285</u>	<u>52,606</u>	<u>174,374</u>	<u>1,599,517</u>
Total Assets	1,755,851	52,606	178,940	1,629,517
Less: Accumulated Depreciation	<u>1,155,495</u>	<u>65,293</u>	<u>174,253</u>	<u>1,046,535</u>
Total Capital Assets (Net)	<u>\$ 600,356</u>	<u>\$ (12,687)</u>	<u>\$ 4,687</u>	<u>\$ 582,982</u>

Current year depreciation expense was allocated as follows:

	<u>Depreciation</u>
Buildings	\$ 16,219
Vehicles	25,394
Library Operations	23,680
Total	<u>\$ 65,293</u>

NOTE 5 LONG-TERM LIABILITIES

Compensated Absences

The change in accrued compensated absences for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due in More than One Year
<u>Governmental Activities</u>					
Other Liabilities:					
Accrued Compensated Absences	<u>\$ 59,382</u>	<u>\$ 9,038</u>	<u>\$ -</u>	<u>\$ 68,420</u>	<u>\$ 68,420</u>

The General Fund will be used to liquidate this liability.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 6 FUND BALANCES

A. Nonspendable

Nonspendable balances include prepaid items of \$96,442.

B. Restricted

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

Branch	2016		2017			
	Balance	Interest	Capital	Revenue	Expense	Balance
Bemidji	\$ 35,201	\$ 88	\$ -	\$ 5,647	\$ 92	\$ 40,844
Blackduck	13,516	34	-	289	468	13,371
Brainerd	51,204	127	-	4,659	300	55,690
Cass Lake	8,390	21	-	245	521	8,135
Kitchigami Regional Library	37,491	93	11,000	-	4,416	44,168
Longville	16,762	42	-	983	468	17,319
Park Rapids	15,479	38	-	3,601	261	18,857
Pine River	16,027	40	-	255	-	16,322
Wadena	26,593	66	-	1,374	92	27,941
Walker	14,955	37	-	406	1,520	13,878
Total	<u>\$ 235,618</u>	<u>\$ 586</u>	<u>\$ 11,000</u>	<u>\$ 17,459</u>	<u>\$ 8,138</u>	<u>\$ 256,525</u>

C. Committed

Following is a schedule of committed funds at December 31, 2017:

Automation	\$ 398,254
Outreach	53,169
Vehicle	126,925
Loan Security	31,347
Building Maintenance	40,968
Software Accounting	25,414
Library Building	165,124
Investment - Minnesota Community Foundation	129,500
Headquarters' Gift	277
Crow Wing County	206,432
Summer Reading	30,798
Sue Tricker Outreach	111,562
Gates Grant	19,619
Regional Library Telecommunications Aid	346,265
Health Insurance	59,976
Total Committed Funds	<u>\$ 1,745,630</u>

NOTE 7 STEWARDSHIP AND ACCOUNTABILITY

No budgetary disclosures required.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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 cost-sharing multiple-employer 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 Plan (General Employees Plan (accounted for in the General Employees Fund)) – All full-time and certain part-time employees of the Library are covered by the General Employees Plan. General Employees Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated plan members are covered by Social Security and Basic Plan 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.

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.

General Employees Plan 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.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 9 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Public Employees Retirement Association (PERA) (Continued)

Contributions

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

General Employees Fund 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 2017. In calendar year 2017, 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 General Employees Fund for the years ended December 31, 2017, 2016, and 2015, were \$90,514, \$87,432, and \$86,690, respectively. The Library's contributions were equal to the required contributions as set by state statute.

Pension Costs

General Employees Fund Pension Costs - At December 31, 2017, the Library reported a liability of \$1,168,260 for its proportionate share of the General Employees Fund's net pension liability. The Library's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Library totaled \$14,672. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the Library's proportion was 0.0183% which was a decrease of 0.0004% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the Library recognized pension expense of \$47,920 for its proportionate share of the General Employees Plan's pension expense. In addition, the Library recognized an additional \$424 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 9 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Public Employees Retirement Association (PERA) (Continued)

Pension Costs (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 38,502	\$ 78,107
Changes in Actuarial Assumptions	222,970	117,118
Difference between projected and actual investment earnings	214,086	198,362
Changes in Proportion	-	90,235
Contributions paid to PERA subsequent to the measurement date	45,499	-
Total	\$ 521,057	\$ 483,822

\$45,499 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, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	Pension Expense Amount
2018	\$ (24,265)
2019	\$ 20,338
2020	\$ 45,253
2021	\$ (49,590)

Actuarial Assumptions

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

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

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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-2014 tables for the General Employees Plan for males or females, as appropriate, with slight adjustments to fix PERA's experience. Cost of living benefit increases for retirees are assumed to be: 1% per year for the General Employees Plan through 2044 and then 2.5% thereafter.

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

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

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

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 geometric 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	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%
Total	100%	

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 9 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Public Employees Retirement Association (PERA) (Continued)

Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

The following presents the Library's proportionate share of the net pension liability 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:

Sensitivity of Net Pension Liability at Current Single Discount Rate			
	1% Lower (6.5%)	Current Discount Rate (7.5%)	1% Higher (8.5%)
General Employees Fund	\$1,812,058	\$1,168,260	\$641,194

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, the Library's proportionate share of the GERF	<u>\$ 521,057</u>	<u>\$ -</u>
Deferred Inflows of Resources Consisted of:		
The amounts shown in Note 9, the Library's proportionate share of the GERF	\$ 483,822	\$ -
Minnesota Legacy Grant Revenue Unearned	<u>66,245</u>	<u>66,245</u>
Total	<u>\$ 550,067</u>	<u>\$ 66,245</u>

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 11 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, 2017**

	BUDGET AMOUNTS - ORIGINAL AND FINAL	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
Beginning Budgetary Fund Balances - January 1	\$ 4,908,842	\$ 4,908,842	\$ -
REVENUES			
Intergovernmental			
State Aid	716,900	691,649	(25,251)
Local Aid	1,924,207	1,924,207	-
Interest, Dividends, and Investments	20,000	26,587	6,587
Sales	24,000	58,683	34,683
Automation	17,459	17,459	-
Donations, Refunds, and Miscellaneous	45,600	15,151	(30,449)
Total Revenues	<u>2,748,166</u>	<u>2,733,736</u>	<u>(14,430)</u>
Amounts Available for Appropriation	<u>7,657,008</u>	<u>7,642,578</u>	<u>(14,430)</u>
EXPENDITURES			
Salaries			
Branch Libraries	1,060,146	974,606	85,540
Regional	271,045	293,745	(22,700)
Outreach/Mobile Library	31,862	23,089	8,773
Employee Benefits	486,578	355,027	131,551
Library Operations	366,748	75,539	291,209
Building	29,200	18,043	11,157
Vehicle/Outreach	33,000	32,159	841
Library Materials	176,558	105,102	71,456
Branch Collections	382,605	360,105	22,500
Automation Repair & Replacement	28,959	91,176	(62,217)
Board	24,000	14,268	9,732
Miscellaneous	5,000	18,334	(13,334)
Associate Service	23,958	12,000	11,958
Total Expenditures	<u>2,919,659</u>	<u>2,373,193</u>	<u>546,466</u>
BUDGETARY FUND BALANCES - DECEMBER 31	<u>\$ 4,737,349</u>	<u>\$ 5,269,385</u>	<u>\$ 532,036</u>

**KITCHIGAMI REGIONAL LIBRARY
BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2017**

	BUDGET AMOUNTS - ORIGINAL AND FINAL	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
Beginning Budgetary Fund Balances - January 1	\$ -	\$ -	\$ -
REVENUES			
Intergovernmental			
State Aid	90,000	54,983	(35,017)
Total Revenues	<u>90,000</u>	<u>54,983</u>	<u>(35,017)</u>
Amounts Available for Appropriation	<u>90,000</u>	<u>54,983</u>	<u>(35,017)</u>
EXPENDITURES			
Legacy Program	90,000	54,983	35,017
Total Expenditures	<u>90,000</u>	<u>54,983</u>	<u>35,017</u>
BUDGETARY FUND BALANCES - DECEMBER 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**KITCHIGAMI REGIONAL LIBRARY
SCHEDULE OF LIBRARY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND
REQUIRED SUPPLEMENTARY INFORMATION (Last Ten Years*)**

Measurement Date	Library's Proportionate Share (Percentage) of the Net Pension Liability	Library's Proportionate Share (Amount) of the Net Pension Liability	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the Library	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the Library	Library's Payroll	Library's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2017	0.0183%	\$ 1,168,260	\$ 14,672	\$ 1,182,932	\$ 1,177,307	99.23%	75.90%
6/30/2016	0.0187%	1,518,347	19,889	1,538,236	1,162,160	130.65%	68.91%
6/30/2015	0.0202%	1,046,869	-	1,046,869	1,164,880	89.87%	78.19%

*This schedule is presented prospectively beginning with the fiscal year ended December 31, 2016.

**KITCHIGAMI REGIONAL LIBRARY
SCHEDULE OF LIBRARY CONTRIBUTIONS
PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND
REQUIRED SUPPLEMENTARY INFORMATION (Last Ten Years*)**

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency	Covered Payroll	Contributions as a Percentage of Covered Payroll
12/31/2017	\$ 90,514	\$ 90,514	-	\$ 1,206,853	7.5%
12/31/2016	87,432	87,432	-	1,165,760	7.5%
12/31/2015	86,690	86,690	-	1,155,867	7.5%

*This schedule is presented prospectively beginning with the fiscal year ended December 31, 2016.

SUPPLEMENTARY INFORMATION

**KITCHIGAMI REGIONAL LIBRARY
 DETAILED REVENUE AND EXPENSE SCHEDULE - ENTITY-WIDE
 YEAR ENDED DECEMBER 31, 2017
 (WITH COMPARATIVE ACTUAL AMOUNTS YEAR ENDED DECEMBER 31, 2016)**

	2017	2016
INTERGOVERNMENTAL AND LOCAL REVENUE		
State		
State Aid	\$ 691,649	\$ 690,914
Special/Grants	54,983	69,429
Total State	746,632	760,343
County		
Beltrami	375,283	369,737
Cass	364,905	358,479
Crow Wing	509,127	509,127
Hubbard	200,000	200,000
Wadena	91,763	90,840
Total County	1,541,078	1,528,183
City		
Bemidji	132,584	129,984
Blackduck	15,437	15,134
Brainerd	80,376	78,800
Cass Lake	7,955	7,876
Longville	9,012	8,923
Park Rapids	44,592	43,495
Pine River	12,848	12,721
Wadena	65,614	64,327
Walker	14,711	14,565
Total City	383,129	375,825
Total Intergovernmental and Local Revenue	2,670,839	2,664,351
OTHER REVENUE		
Interest on Savings	8,011	6,545
Endowment Investment Income and Gains	18,576	8,335
Automation	17,459	17,459
Sales		
Copies and Faxes	14,508	15,151
Miscellaneous Gifts and Other	55,063	50,750
Total Other Revenue	113,617	98,240
Total Revenues	\$ 2,784,456	\$ 2,762,591

**KITCHIGAMI REGIONAL LIBRARY
 DETAILED REVENUE AND EXPENSE SCHEDULE - ENTITY-WIDE
 YEAR ENDED DECEMBER 31, 2017
 (WITH COMPARATIVE ACTUAL AMOUNTS YEAR ENDED DECEMBER 31, 2016)
 (CONTINUED)**

EXPENSES	2017	2016
Library Materials		
Branch Collections	\$ 307,498	\$ 343,330
E-Materials	92,725	95,842
Periodicals and Papers	11,196	18,835
Shared Databases	1,181	47,984
Total Library Materials	412,600	505,991
Library Operations		
Automation Operating Costs	91,176	75,802
Communications/Dataline/Fax	35,491	56,951
Postage	5,116	6,584
Library Supplies	10,742	23,391
Office Supplies	16,371	6,651
Shared Processing Cost	15,161	19,008
Interlibrary Service Maintenance	412	76,903
Winter Reading Program	4,781	5,596
Other	1,259	1,957
Total Library Operations	180,509	272,843
Vehicle		
Delivery Van/Staff Van/Mobile Library Gas and Oil	12,110	12,317
Delivery Van/Staff Van/Mobile Library Repairs	14,563	2,770
Vehicles/Mobile Library Insurance	5,486	5,541
Total Vehicle	32,159	20,628
Building		
Insurance - Contents and Liability	5,449	5,296
Repairs and Maintenance	5,430	4,694
Electric	4,424	4,659
Gas	1,178	1,001
Sanitation/Disposal	736	793
Sewer	475	504
Water	351	351
Total Building	18,043	17,298
Board		
Meetings	2,180	3,255
Professional Fees and Dues/Special Projects	9,417	29,233
Insurance	2,671	2,705
Total Board	14,268	35,193
Legacy Program Expenses	54,983	69,429

**KITCHIGAMI REGIONAL LIBRARY
 DETAILED REVENUE AND EXPENSE SCHEDULE - ENTITY-WIDE
 YEAR ENDED DECEMBER 31, 2017
 (WITH COMPARATIVE ACTUAL AMOUNTS YEAR ENDED DECEMBER 31, 2016)
 (CONTINUED)**

	2017	2016
EXPENSES (CONTINUED)		
Branch Salaries		
Bemidji	242,969	225,117
Blackduck	34,930	36,231
Brainerd	316,538	291,803
Cass Lake	29,228	29,557
Longville	34,729	34,461
Park Rapids	124,129	118,027
Pine River	61,704	62,497
Wadena	73,543	69,237
Walker	56,836	55,915
Total Branch Salaries	974,606	922,845
Regional Salaries		
System Support	42,437	196,920
Technical Services	26,476	39,388
Interlibrary Loan	31,746	37,625
Mobile Library Salaries	23,089	31,657
Delivery	193,086	21,142
Total Regional Salaries	316,834	326,732
Employee Benefits		
FICA	99,277	96,625
Health Benefits	142,368	162,699
PERA	99,006	177,118
Workers' Compensation	5,321	11,659
Staff Development/Conferences/Vacation	9,055	14,260
Unemployment	-	143
Total Employee Benefits	355,027	462,504
Miscellaneous		
Meetings	5,627	842
Travel	261	455
Investment Fees/Admin	1,510	1,452
Recruiting	4,085	4,769
Associate Service	12,000	10,000
Loss of Sale of Assets	4,687	109,109
Other	2,164	(362)
Total Miscellaneous	30,334	126,265
Depreciation		
Books and Materials	6,749	14,353
Buildings and Equipment	58,544	56,410
Total Depreciation	65,293	70,763
 Total Expenses	 \$ 2,454,656	 \$ 2,830,491

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009
Cash Reconciliation									
Beginning Cash	\$ 22,181	\$ 45,970	\$ (8,365)	\$ 5,221	\$ (54,594)	\$ 62,755	\$ 127,094	\$ 55,601	\$ -
Cash Receipts	99,047	45,640	166,689	90,330	193,552	121,962	189,438	269,708	80,486
Cash Expenditures	(54,983)	(69,429)	(112,354)	(103,916)	(133,737)	(239,311)	(253,777)	(198,215)	(24,885)
Ending Cash	<u>\$ 66,245</u>	<u>\$ 22,181</u>	<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	\$ 99,047	\$ 45,640	\$ 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	22,181	45,970	48,796	62,629	-	-	-	-	-
Deferred Revenue	(66,245)	(22,181)	(45,970)	(48,796)	(62,629)	-	-	-	-
Revenue	<u>54,983</u>	<u>69,429</u>	<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	54,983	69,429	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>54,983</u>	<u>69,429</u>	<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>\$ -</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>\$ -</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	-	199	400	400	667	2,378	693	-	-
Entity-Wide Expense	<u>54,983</u>	<u>69,628</u>	<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>\$ -</u>	<u>\$ (199)</u>	<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 Position	<u>\$ -</u>	<u>\$ -</u>	<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>2017</u>	<u>2016</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	\$ 997,378	\$ 40,991	\$ 40,217	\$ 6,844	\$ 137,578	\$ 246,130	\$ 107,105	\$ 103,794	\$ 50,856	\$ 111,404	\$ 152,459
EXPENSES											
Priority 1											
Datalines	410,319	31,285	47,906	44,552	47,113	41,005	43,673	43,089	43,098	44,694	23,904
Telephone	173,942	18,195	17,046	24,387	16,820	15,413	16,083	18,026	17,105	16,540	14,327
Remote Access	2,336	208	312	312	312	312	312	479	89	-	-
Internet Access	9,091	-	-	-	6,712	360	2,019	-	-	-	-
Priority 2											
Internal Connections	55,425	5,100	1,913	14,836	-	8,531	25,045	-	-	-	-
Total Expenses	<u>651,113</u>	<u>54,788</u>	<u>67,177</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>\$ 346,265</u>	<u>\$ (13,797)</u>	<u>\$ (26,960)</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

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 and each major fund of the Kitchigami Regional Library, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated June 5, 2018.

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 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. We did identify deficiencies in internal control as described in the accompanying Schedule of Findings and Recommendations as items 2016-001 and 2016-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free from 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*.

Library's Response to Findings

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

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*, except as described in the Schedule of Findings and Recommendations as item 2017-003. 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.

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 & Consultants

Pequot Lakes, Minnesota
June 5, 2018

**KITCHIGAMI REGIONAL LIBRARY
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2017**

CURRENT YEAR FINDINGS

Significant Deficiencies

2017-001 Internal Control/Segregation of Duties

Condition: 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.

**KITCHIGAMI REGIONAL LIBRARY
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2017
(CONTINUED)**

CURRENT YEAR FINDINGS (CONTINUED)

Significant Deficiencies (Continued)

2017-002 Internal Control/Pre-signed Checks

Condition: The Library uses check stock that comes pre-signed from the vendor using printed images of authorized signatures on both signature lines.

Criteria: Internal controls should be in place that provides reasonable assurance that all disbursement checks receive proper approval prior to their issuance.

Cause: There are no procedures in place to require proper authorization on printed checks.

Effect: Because of the failure to require authorized signatures on printed checks, checks may be written without the knowledge or approval of management.

Recommendation: While we recognize the difficulty the Library faces in getting timely authorized signatures on its checks, we recommend that the Library discontinue the use of pre-signed checks.

Management Response: The Board of Directors agrees with the finding and will evaluate implementing the recommended procedure.

Minnesota Legal Compliance

2017-003 Deposits and Investments

Condition: The Library lacked sufficient collateral to cover its uninsured deposits on December 31, 2017.

Criteria: Government entities are required to obtain bonds or collateral which, when computed at market value, shall be at least ten percent more than the amount of any deposits in excess of deposits covered by FDIC insurance at the close of each banking day.

Cause: There are no procedures in place to ensure that excess deposits are covered by sufficient collateral.

Effect: Because of the failure to monitor excess deposits, the Library is exposed to the risk that it will be unable to recover its excess deposits in the event of a bank failure.

Recommendation: We recommend that the Library put procedures in place to monitor its excess deposits on a daily basis to ensure it maintains sufficient collateral.

Management Response: The Board of Directors agrees with the finding and has implemented the recommended procedure.

**KITCHIGAMI REGIONAL LIBRARY
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
DECEMBER 31, 2017**

STATUS OF PRIOR AUDIT FINDINGS

The prior audit contained four findings:

Significant Deficiencies

2016-001 Segregation of Duties

<i>Condition:</i>	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.
<i>Current Status:</i>	This condition is noted again in the current year audit of the financial statements.

2016-002 Internal Control/Presigned Checks

<i>Condition:</i>	The Library uses check stock that is presigned from the vendor using printed images of authorized signatures on both signature lines.
<i>Current Status:</i>	This condition is noted again in the current year audit of the financial statements.

Minnesota Legal Compliance

2016-003 Deposits and Investments

<i>Condition:</i>	The Library lacked sufficient collateral to cover its uninsured deposits on December 31, 2016.
<i>Current Status:</i>	This condition is noted again in the current year audit of the financial statements.

2016-004 Timely Close of Financial Reporting Period

<i>Condition:</i>	The Library delayed the close of its annual reporting period.
<i>Current Status:</i>	This condition is not noted again in the current year audit of the financial statements.