

KITCHIGAMI REGIONAL LIBRARY SYSTEM

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2020



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**KITCHIGAMI REGIONAL LIBRARY SYSTEM
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INTRODUCTORY SECTION

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
BOARD OF DIRECTORS
DECEMBER 31, 2020**

Name	Position	Officials
Neal Caalswyk	Chair	Cass County
Thomas Conway	Vice-Chair	City of Park Rapids
Mary Koep	Secretary	City of Brainerd
Jim Hofer	Treasurer	Wadena County
Stephanie Johnson	Director	
DIRECTORS		
Reed Olson		Beltrami County
Neal Gaalswyk		Cass County
Bill Brekken		Crow Wing County
Tom Krueger		Hubbard County
Jim Hofer		Wadena County
Nancy Erickson		City of Bemidji
Kendra Murray		City of Blackduck
Mary Koep		City of Brainerd
Richard Molash		City of Cass Lake
Phyllis Eck		City of Longville
Thomas Conway		City of Park Rapids
Tammy Hansen		City of Pine River
George Deiss		City of Wadena
Charlene Moore		City of Walker

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Directors
Kitchigami Regional Library System
Pine River, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Kitchigami Regional Library System (the Library System), Pine River, Minnesota, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Library System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 auditors' 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 Library System'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 Library System'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 unmodified and qualified audit opinions.

Basis for Qualified Opinion on Governmental Activities

We were unable to obtain sufficient appropriate audit evidence with regard to the valuation of the Library System’s collection assets. The Library System does not maintain records that provide complete accounting of the historical cost of the books and other items included in the Library System’s collection. Accounting principles generally accepted in the United States of America require that these assets be recorded at cost. The amounts by which this departure would affect the assets, net position, and expenses of the governmental activities have not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Library System as of December 31, 2020, 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.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Library System as of December 31, 2020 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter Regarding Restatement of Prior Period

During the year ended December 31, 2019, the Library System reported \$47,662 of compensated absences as a liability on the General Fund’s financial statement. As a result of this error, the Library System reports a restatement of the 2020 beginning fund balance as this amount should not have been accrued on the fund level (see Note 12). Our auditors’ opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including 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, except for the effect on the supplementary information of government wide activities assets, net position and expenses, and as described in the other matters paragraph, the information is fairly stated in all material aspects in relation to the financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Kitchigami Regional Library System's basic financial statements. The other information section as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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 September 7, 2021, on our consideration of the Library System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Library System'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 System's internal control over financial reporting and compliance.


CliftonLarsonAllen LLP

Brainerd, Minnesota
September 7, 2021

REQUIRED SUPPLEMENTARY INFORMATION

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2020**

This section of Kitchigami Regional Library System's (the Library System) annual financial report presents our discussion and analysis of the Library System's financial performance during the year ended on December 31, 2020.

FINANCIAL HIGHLIGHTS

Key financial highlights for the year ended December 31, 2020 include the following:

- Overall revenues in the statement of activities were \$3,020,260 and expenses were \$2,755,023.
- As of the close of the current fiscal year, the governmental activities combined net position was \$5,812,015, an increase of \$265,237 from the prior year. \$619,711 of this amount is the net investment in capital assets, and \$385,175 is restricted to specific purposes.
- The General Fund's fund balance increased \$339,164 from 2020 activity.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information which includes the 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 System:

- The first two statements are government-wide financial statements that provide both *short-term* and *long-term* information about the Library System's overall financial status.
- The remaining statements are fund financial statements that focus on *individual parts* of the Library System, reporting the Library System's operations in more detail than the entity-wide statements.

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

Entity-Wide Statements

The entity-wide statements report information about the Library System as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Library System'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 System's net position and how it has changed. Net position – the difference between the Library System's assets and deferred outflows of resources, and liabilities and deferred inflows of resources – is a way to measure the Library System's financial position.

- Over time, increases or decreases in the Library System's net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Library System you need to consider additional nonfinancial factors such as changes in the member county's tax bases, and other nonfinancial factors.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2020**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Entity-Wide Statements (Continued)

In the Entity-Wide financial statements the Library System's activities are shown in one category:

- *Governmental activities* – Includes all of the Library System's basic services

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.
- The Library System establishes 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 System has one kind of fund:

- ***Governmental funds*** – The Library System's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds 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 System's programs. Because this information does not encompass the additional long-term focus of the Entity-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2020**

FINANCIAL ANALYSIS OF THE LIBRARY SYSTEM AS A WHOLE

Net Position

The Library System's combined net position was \$5,812,015 on December 31, 2020. There was an overall increase of \$265,237 over the net position of \$5,546,778 at December 31, 2019.

**Table A-1
Net Position**

	Governmental Activities		Percentage Change
	2020	2019	
Current and Other Assets	\$ 4,881,259	\$ 4,419,379	10.45 %
Assets - Designated	1,682,135	1,733,564	(2.97)
Capital and Noncurrent Assets	624,031	672,415	(7.20)
Total Assets	<u>7,187,425</u>	<u>6,825,358</u>	5.30
Deferred Outflows of Resources	92,030	214,996	(57.19)
Current Liabilities	263,029	110,536	137.96
Long-Term Liabilities	1,132,806	1,015,198	11.58
Total Liabilities	<u>1,395,835</u>	<u>1,125,734</u>	23.99
Deferred Inflows of Resources	71,605	367,842	(80.53)
Net Position:			
Net Investment in Capital Assets	619,711	672,415	(7.84)
Restricted	385,175	372,981	3.27
Unrestricted	4,807,129	4,501,382	6.79
Total Net Position	<u>\$ 5,812,015</u>	<u>\$ 5,546,778</u>	4.78

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2020**

FINANCIAL ANALYSIS OF THE LIBRARY SYSTEM AS A WHOLE (CONTINUED)

Changes in Net Position

A summary of the revenues and expenses is presented below and described in more detail following the table.

The total net position of the Library System increased \$265,237. The increase is mainly due to expenditures under budgeted amounts and higher than budgeted intergovernmental revenues.

**Table A-2
Change in Net Position**

	Governmental Activities for the fiscal year ended December 31,		Total % Change
	2020	2019	
REVENUES			
Program Revenues:			
Charges for Services	\$ 17,649	\$ 49,011	(63.99)%
Regional Library Basic System Support Grant	667,385	648,471	2.92
Regional Library Telecommunications Aid Grant	41,030	39,884	2.87
Legacy Grant	69,461	106,758	(34.94)
Other Grants and Contributions	104,836	59,655	75.74
General Revenues:			
Allotments from Participating Governments	2,034,507	1,985,825	2.45
Investment Earnings	45,374	63,012	(27.99)
Other	40,018	-	100.00
Total Revenues	3,020,260	2,952,616	2.29
EXPENSES			
Library Operations	2,146,315	1,923,408	11.59
Building	72,556	35,116	106.62
Vehicle	22,668	48,334	(53.10)
Branch Collections	257,384	298,479	(13.77)
Library Materials	147,882	127,069	16.38
Legacy Programs	69,461	106,758	(34.94)
Board	28,757	23,707	21.30
Associate Service	10,000	10,000	-
Total Expenses	2,755,023	2,572,871	7.08
CHANGE IN NET POSITION	265,237	379,745	
Net Position - Beginning of Year	5,546,778	5,167,033	
NET POSITION - END OF YEAR	\$ 5,812,015	\$ 5,546,778	

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2020**

FINANCIAL ANALYSIS OF THE LIBRARY SYSTEM AS A WHOLE (CONTINUED)

The cost of all governmental activities this year was \$2,755,023.

- Some of the cost was paid by the users of the Library System's programs 17,649.
- The state and local governments subsidized certain programs with grants and contribution \$882,712.
- Most of the Library System's costs, however, were paid for by Library System taxpayers and the taxpayers of our state.
- This portion of governmental activities was paid for with \$2,034,507 in property taxes, \$45,374 of investment earnings, and other general revenues.

Figure A-1 Sources of Library's Revenues for Fiscal 2020

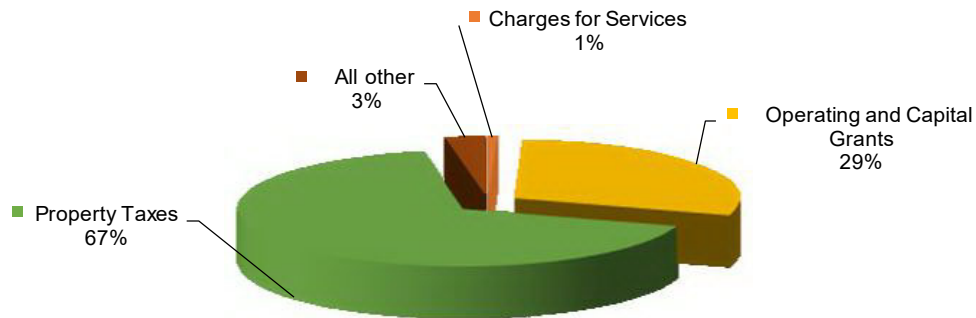
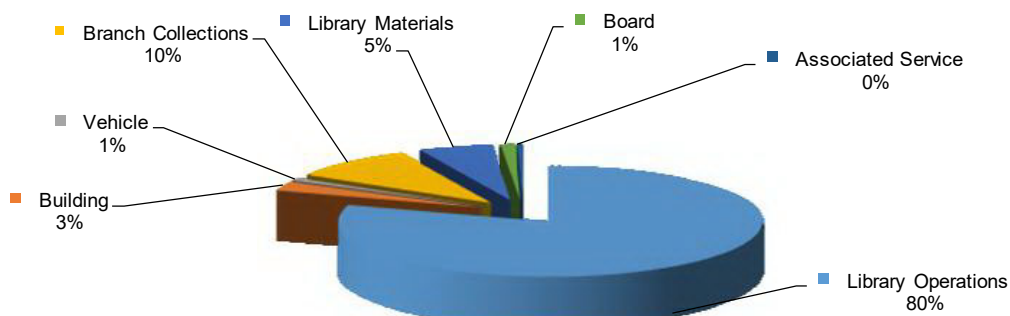


Figure A-2 Library Expenses for Fiscal 2020



**KITCHIGAMI REGIONAL LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2020**

FINANCIAL ANALYSIS OF THE LIBRARY SYSTEM AS A WHOLE (CONTINUED)

Table A-3 presents the cost of each of the Library System's program functions, as well as each function's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the Library System's taxpayers by each of these functions.

**Table A-3
Cost and Net Cost of Services**

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2020	2019		2020	2019	
Library Operations	\$ 2,146,315	\$ 1,923,408	11.59 %	\$ 1,315,415	\$ 1,126,387	16.78 %
Building	72,556	35,116	106.62	72,556	35,116	106.62
Vehicle	22,668	48,334	(53.10)	22,668	48,334	(53.10)
Branch Collections	257,384	298,479	(13.77)	257,384	298,479	(13.77)
Library Materials	147,882	127,069	16.38	147,882	127,069	16.38
Legacy Programs	69,461	106,758	(34.94)	-	-	-
Board	28,757	23,707	21.30	28,757	23,707	21.30
Associate Service	10,000	10,000	-	10,000	10,000	-
Total	<u>\$ 2,755,023</u>	<u>\$ 2,572,871</u>	7.08	<u>\$ 1,854,662</u>	<u>\$ 1,669,092</u>	11.12

FINANCIAL ANALYSIS OF THE LIBRARY SYSTEM'S FUNDS

The financial performance of the Library System as a whole is reflected in its governmental funds as well. As the Library System completed the year, its governmental funds reported a combined fund balance of \$6,301,325. This is an increase of \$386,826, including a restatement of \$47,662, or approximately 7% of last year's ending fund balance of \$5,914,499.

Revenues for the Library System's governmental funds were \$2,980,242 while total expenditures were \$2,686,136. The associated increase of \$339,164 resulted from revenues being higher than expenditures and actual expenditures being lower than budget.

GENERAL FUND

The General Fund includes the primary operations of the Library System in providing services to citizens. The year-ending fund balance in the General Fund increased by \$339,164 from 2019, primarily due to an increase in intergovernmental revenues.

ARTS AND CULTURAL HERITAGE FUND

The Arts and Cultural Heritage Fund accounts for the activity of the Library System's Legacy Program during the year. The Fund has a total Fund balance of \$0. There was no change in fund balance during the current year.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2020**

FINANCIAL ANALYSIS OF THE LIBRARY SYSTEM'S FUNDS (CONTINUED)

The following schedule presents a summary of General Fund revenues.

**Table A-4
General Fund Revenues**

	Year Ended		Change	
	December 31, 2020	December 31, 2019	Increase (Decrease)	Percent
Intergovernmental:				
Federal Sources	\$ 13,000	\$ -	\$ 13,000	100.0 %
State Sources	753,084	695,530	57,554	8.3
Other Sources	2,034,507	1,985,825	48,682	2.5
Charges for Services	17,649	49,011	(31,362)	(64.0)
Investment Earnings	45,375	63,012	(17,637)	(28.0)
Miscellaneous and Other	47,166	50,221	(3,055)	(6.1)
Total General Fund Revenues	<u>\$ 2,910,781</u>	<u>\$ 2,843,599</u>	<u>\$ 67,182</u>	2.4

Total General Fund revenues increased by \$67,182 or 2.4% over the previous year. This increase was due primarily to increased tax allotments from the Library System's partner counties and cities, and increased intergovernmental revenue.

The following schedule presents a summary of General Fund expenditures.

**Table A-5
General Fund Expenditures**

	Year Ended		Change	
	December 31, 2020	December 31, 2019	Increase (Decrease)	Percent
Library Operations	\$ 2,048,689	\$ 1,943,315	\$ 105,374	5.4 %
Building	72,556	18,626	53,930	289.5
Vehicle	22,668	19,790	2,878	14.5
Branch Collections	280,363	279,650	713	0.3
Library Materials	147,882	127,069	20,813	16.4
Board	28,757	23,707	5,050	21.3
Associate Service	10,000	10,000	-	-
Capital Outlay	5,040	62,677	(57,637)	(92.0)
Debt Service:	720	-	720	100.0
Total Expenditures	<u>\$ 2,616,675</u>	<u>\$ 2,484,834</u>	<u>\$ 131,841</u>	5.3

Total General Fund expenditures increased \$131,841 or 5.3% from the previous year due primarily to increased library and building operation expenditures.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2020**

General Fund Budgetary Highlights

The General Fund revenues were \$218,132 higher than budget due to an increase in tax allotments from partner counties and cities, an increase in investment earnings, and donations that were not budgeted for. Expenditures were under budget by \$402,895 during the current fiscal year due to lower than expected library operational expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Through 2020, the Library System has invested \$624,031 (net of accumulated depreciation) in a broad range of capital assets. (More detailed information about capital assets can be found in Note 5 to the financial statements) Total depreciation expense for the year was \$76,402.

**Table A-6
The Library System's Capital Assets**

	2020	2019	Percentage Change
Land	\$ 30,000	\$ 30,000	-
Buildings and Improvements	587,168	587,168	-
Vehicles	176,648	213,897	(17.4)
Furniture, Fixtures, and Equipment	332,265	327,225	1.5
Books and Materials (Collections)	519,944	496,966	4.6
Intangible Asset - Software	19,916	19,916	-
Less: Accumulated Depreciation	(1,041,910)	(1,002,757)	3.9
Total	<u>\$ 624,031</u>	<u>\$ 672,415</u>	(7.2)

Long-Term Debt

The long-term liability balances for the years ended December 31 are:

**Table A-7
The Library System's Long-Term Debt**

	2020	2019	Percentage Change
Capital Lease Payable	\$ 4,320	\$ -	100.00 %
Net Pension Liability	1,067,191	967,536	10.30
Compensated Absences Payable	62,255	47,662	30.62
Total	<u>\$ 1,133,766</u>	<u>\$ 1,015,198</u>	11.68

During the current fiscal year, the Library System's long-term compensated absences increased by \$14,593, and the net pension liability increased by \$199,655. There was a new capital lease payable in the current year of \$4,320. (More detailed information about long-term liabilities can be found in Note 7 to the financial statements)

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2020**

FACTORS BEARING ON THE LIBRARY SYSTEM'S FUTURE

The future financial health of the Library System depends on receipts of revenues from state and member organization for programs and services. Projecting future revenue is tenuous because of factors affecting those member governments.

CONTACTING THE LIBRARY SYSTEM'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Library System's finances and to demonstrate the Library System's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Regional Office, Kitchigami Regional Library System, P.O. Box 84, Pine River, MN 56474.

BASIC FINANCIAL STATEMENTS

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
STATEMENT OF NET POSITION
DECEMBER 31, 2020**

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 4,657,262
Cash and Cash Equivalents - Designated	1,682,135
Investments	132,768
Interest Receivable	280
Prepaid Items	90,949
Capital Assets	
Land and Construction in Progress	30,000
Other Capital Assets, Net of Depreciation	594,031
Total Assets	7,187,425
DEFERRED OUTFLOWS OF RESOURCES	
Pension Related	92,030
LIABILITIES	
Salaries and Payroll Deductions Payable	62,501
Accounts and Contracts Payable	87,587
Unearned Revenue	111,981
Long-Term Liabilities	
Portion Due Within One Year	960
Compensated Absences	62,255
Capital Leases Payable	3,360
Net Pension Liability	1,067,191
Total Liabilities	1,395,835
DEFERRED INFLOWS OF RESOURCES	
Pension Related	71,605
NET POSITION	
Net Investment in Capital Assets	619,711
Restricted for	
Endowment - Minnesota Community Foundation	132,768
Library Branch Automation	252,407
Unrestricted	4,807,129
Total Net Position	\$ 5,812,015

See accompanying Notes to Financial Statements.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2020**

	Major Funds		Total
	General	Arts and Cultural Heritage	Governmental Funds 2020
ASSETS			
Cash and Cash Equivalents	\$ 4,545,281	\$ 111,981	\$ 4,657,262
Cash and Cash Equivalents - Designated	1,682,135	-	1,682,135
Investments	132,768	-	132,768
Interest Receivables	280	-	280
Prepaid Items	90,949	-	90,949
	Total Assets	\$ 111,981	\$ 6,563,394
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE			
LIABILITIES			
Salaries and Payroll Deductions Payable	\$ 62,501	\$ -	\$ 62,501
Accounts and Contracts Payable	87,587	-	87,587
Unearned Revenue	-	111,981	111,981
Total Liabilities	150,088	111,981	262,069
FUND BALANCE			
Nonspendable:			
Prepaid Items	90,949	-	90,949
Endowment Investment	132,768	-	132,768
Restricted	252,407	-	252,407
Committed	1,682,135	-	1,682,135
Unassigned	4,143,066	-	4,143,066
Total Fund Balance	6,301,325	-	6,301,325
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 6,451,413	\$ 111,981	\$ 6,563,394

See accompanying Notes to Financial Statements.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2020**

Total Fund Balance for Governmental Funds \$ 6,301,325

Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

Land	30,000
Buildings and Improvements, Net of Accumulated Depreciation	282,146
Vehicles, Net of Accumulated Depreciation	47,541
Equipment, Net of Accumulated Depreciation	21,578
Books and Materials, Net of Accumulated Depreciation	232,808
Intangible Assets, Net of Accumulated Amortization	9,958

The District's net pension liability and related deferred inflows and outflows are recorded only on the statement of net position. Balances at year-end are:

Net Pension Liability	(1,067,191)
Deferred Inflows of Resources - Pension Related	(71,605)
Deferred Outflows of Resources - Pension Related	92,030

Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:

Capital Leases Payable	(4,320)
Compensated Absences Payable	(62,255)
	(66,575)

Total Net Position of Governmental Activities **\$ 5,812,015**

See accompanying Notes to Financial Statements.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2020**

	Major Funds		Total
	General	Arts and Cultural Heritage	Governmental Funds 2020
REVENUES			
Intergovernmental			
Federal Sources	\$ 13,000	\$ -	\$ 13,000
State Sources	753,084	69,461	822,545
Other Sources	2,034,507	-	2,034,507
Interest Earnings	45,375	-	45,375
Sales	17,649	-	17,649
Automation	17,459	-	17,459
Miscellaneous	29,707	-	29,707
Total Revenues	<u>2,910,781</u>	<u>69,461</u>	<u>2,980,242</u>
EXPENDITURES			
Current:			
Library Operations	2,048,689	-	2,048,689
Building	72,556	-	72,556
Vehicle	22,668	-	22,668
Branch Collections	280,363	-	280,363
Library Materials	147,882	-	147,882
Legacy Program	-	69,461	69,461
Board	28,757	-	28,757
Associate Service	10,000	-	10,000
Capital Outlay	5,040	-	5,040
Debt Service:			
Principal	720	-	720
Total Expenditures	<u>2,616,675</u>	<u>69,461</u>	<u>2,686,136</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	294,106	-	294,106
OTHER FINANCING SOURCES (USES)			
Capital Lease Proceeds	5,040	-	5,040
Insurance Proceeds	40,018	-	40,018
Total Other Financing Sources (Uses)	<u>45,058</u>	<u>-</u>	<u>45,058</u>
NET CHANGE IN FUND BALANCES	339,164	-	339,164
Fund Balances - Beginning of Year	5,914,499	-	5,914,499
Change in Accounting Principle (See Note 12)	47,662	-	47,662
Fund Balance - Beginning of Year, as Restated	<u>5,962,161</u>	<u>-</u>	<u>5,962,161</u>
FUND BALANCES - END OF YEAR	<u>\$ 6,301,325</u>	<u>\$ -</u>	<u>\$ 6,301,325</u>

See accompanying Notes to Financial Statements.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2020**

Net Change in Fund Balance-Total Governmental Funds	\$ 339,164
 Amounts reported for governmental activities in the statement of activities are different because:	
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.	
Capital Outlays	28,018
Depreciation Expense	(76,402)
 Pension expenditures on the governmental funds are measured by current year employer contributions. Pension expenses on the statement of activities are measured by the change in net pension liability and the related deferred inflows and outflows of resources.	
	(6,630)
 Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net position.	
Capital Lease Proceeds	(5,040)
Principal Payments for Capital Leases	720
 In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	
	(14,593)
 Change in Net Position of Governmental Activities	 \$ 265,237

See accompanying Notes to Financial Statements.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Kitchigami Regional Library System's (the Library System) financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for the year ended December 31, 2020. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the Library System are discussed below.

A. Financial Reporting Entity

The Library System, 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 noted in the Detailed Revenue and Expense Schedule – Entity Wide – Intergovernmental and Local Revenue Section. Revenues are also received by grants in aid from the state of Minnesota.

GAAP requires that the Library System's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separate from the Library System. In addition, the Library System's financial statements are to include all component units – entities for which the Library System is financially accountable. Based on the significance of any operational or financial relationships with the Library System, there are no component units to be included in these financial statements.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities, or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. These financial statements include all funds of the Library System. There are no other entities for which the Library System is financially accountable.

B. Basic Financial Statement Presentation

1. Government-Wide Statements

The Entity-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the reporting government as a whole. These statements include all the financial activities of the Library System.

In the government-wide statement of net position, the governmental activities are presented on a consolidated basis, and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library System's net position is reported in three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Presentation (Continued)

1. Government-Wide Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The Library System applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net position is available. Depreciation expenses that can be specifically identified by function are included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the statement of activities. Generally, the effect of material interfund activity has been removed from the Entity-wide financial statements.

2. Fund Financial Statements

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Library System reports the following major governmental funds:

The General Fund is the Library System's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

The Arts and Cultural Heritage 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.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied. Grant and similar items are recognized when all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes measurable and available. "Measurable" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenue is generally considered as available if collected within 60 days after year-end. Expenditures are generally recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity

1. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and all cash and investments with an original maturity of three months or less.

2. Deposits and Investments

Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Investments of the Library System are reported at fair value, as prescribed by GAAP. Additional information on the Library's investments and fair value measurements can be found in Note 3.

3. Receivables and Payables

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

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments in both government-wide and fund financial statements. Expenditures are allocated over the periods benefited. Prepaid items are expensed using the consumption method for the fund financial statements.

5. Capital Assets

Capital assets are capitalized as historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their acquisition value at the date of donation. The Library System defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the Entity-wide financial statements, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	15-39
Furniture, Equipment, and Vehicles	5-10
Improvements	20
Library Collections	15

Capital assets not being depreciated include land and construction in progress.

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

6. Deferred Outflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period. The Library System will not recognize the related outflow until a future event occurs.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

7. 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.

The liability for vacation leave is reported as incurred in the Entity-Wide financial statements. A liability for those amounts is recorded in the Governmental Funds only if the liability has matured as a result of employee resignations or retirements.

8. Deferred Inflows of Resources

The Library System's financial statements report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position or fund balance that applies to a future period. The Library System will not recognize the related revenue until a future event occurs. The Library System receives funds for the Legacy Fund Grant before any related expenditures have occurred, so there is an advanced allotment recognized for funds not spent as of year-end. The Library System has two types of items. The first type of deferred inflows of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the Library System's year) under the modified accrual basis of accounting. The second type relates to pension liabilities as described in Note 9 to the financial statements. These inflows arise only under the full accrual basis of accounting and consist of difference between expected and actual pension plan economic experience and also pension plan changes on proportionate share and, accordingly, are reported only in the statement of net position.

9. Unearned Revenue

Governmental funds and government-wide financial statements report unearned revenue in connection with resources that have been received but not yet earned.

10. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

10. Long-Term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses.

11. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. 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.

12. Classification of Net Position

In the government-wide financial statements, net position is classified as net investment in capital assets, restricted, and unrestricted. Net investment in capital assets is the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets. Restricted net position is the amount of net position for which external restrictions of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Unrestricted net position is the amount of net position that does not meet the definition of restricted or net investment of capital assets.

13. Fund Equity

In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned, and unassigned fund balances. Nonspendable portions of fund balance relate to prepaids, inventories, and long-term receivables, as applicable, which cannot be spent because they are not in spendable form. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Directors. Assigned fund balances are constrained by the Library System's intent to be used for specific purposes, but are not restricted nor committed. Intent is expressed by the Library System's Board of Directors itself, a body (budget or finance committee), or an official to which the Board of Directors has delegated the authority to assign amounts for specific purposes.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

13. Fund Equity (Continued)

Unassigned fund balances are considered the remaining amounts. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the Library System's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the Library System's policy to use committed first, then assigned, and finally unassigned amounts.

It is the Library System's policy that the General Fund 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 System from borrowing funds.

14. Use of Estimates

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

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

A. Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget at the departmental level for the year ended December 31, 2020:

Fund	Function	Budget	Expenditures	Excess
General Fund	Current:			
	Building	\$ 23,500	\$ 72,556	\$ 49,056
	Vehicle	-	22,668	22,668
	Branch Collections	220,807	280,363	59,556
	Capital Outlay	4,400	5,040	640
	Debt Service:			
	Principal	-	720	720

The additional expenditures were financed by greater than anticipated grant and member revenues.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 3 DEPOSITS AND INVESTMENTS

A. Deposits

The Library System maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet 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 System maintains deposits at financial institutions which are authorized by the, Library System's Board of Directors.

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.

1. Deposits

The Library System is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposits. The Library System is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least 10% more than the amount of deposit at the close of the financial institution's banking day, not covered by insurance, bonds, or an irrevocable standby letter of credit issued by the Federal Home Loan Bank. Minnesota Statutes require 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.

Authorized collateral includes: U.S. government treasury bills, notes, or bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by a Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require 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.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Library System's deposits may not be returned to it. The Library System has a deposit policy for custodial credit risk which follows Minnesota Statutes for deposits.

The Library System's deposits in banks at December 31, 2020 were undercollateralized by \$399,761. This deficit put the Library System at a higher risk for custodial credit risk. The deficit was covered in the subsequent months.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

2. Investments

Minnesota Statutes §§118A.04 and 118A.05 generally authorize the following types of investments as available to the Library System:

- (1) Securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minnesota Statutes §118A.04, Subd. 6;
- (2) Mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) General obligations of the state of Minnesota and its municipalities, and 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;
- (4) Bankers’ acceptances of United States banks;
- (5) 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
- (6) With certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The Library System does not have a formal policy to manage its exposure to interest rate risk.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a national recognized statistical rating organization. It is the Library System’s policy to invest only in securities that meet the rating requirements set by state statute.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

2. Investments (Continued)

Custodial Credit Risk – Investments

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk

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

The following table presents the County's deposit and investment balances at December 31, 2020, and information relating to potential investment risks:

	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	
Negotiable Certificates of Deposit	N/R	N/A	80.1%	N/A	\$ 532,928
Investment Pools/Mutual Funds:					
Minnesota Community Foundation (MCF)	N/R	N/A	19.9%	N/A	132,678
Total Investments					<u>665,606</u>
Deposits					5,804,008
Petty Cash					<u>2,461</u>
Total Deposits and Investments					<u>\$ 6,472,075</u>

N/A - Not Applicable
N/R - Not Rated

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

2. Investments (Continued)

Fair Value Measure

The Library System uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The Library System follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the Library System has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial asset and liabilities are valued using inputs that are adjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.

Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants and would use in pricing the asset.

Assets measured at fair value on a recurring basis:

<u>Type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments by Fair Market Value:				
Negotiable Certificates of Deposit	\$ -	\$ 532,928	\$ -	\$ 532,928
Investments Measured at Amortized Costs				
Minnesota Community Foundation				132,678
				Deposits 5,804,008
				Petty Cash 2,461
				<u>\$ 6,472,075</u>

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

2. Investments (Continued)

Fair Value Measure (Continued)

Minnesota Community Foundation (MCF) fund is a classic endowment fund held and managed by the Saint Paul & Minnesota Community Foundation.

The Minnesota Community Foundation investment is valued using amortized cost. These funds use charitable gifts to build an investment designed for growth. The endowment's earnings flow back to the library stem as annual income. The use is restricted by the grant agreement with the Foundation. The library system may request to terminate the fund and request the return of the assets and/or request additional amounts above the spending policy set by the board of the Foundation.

NOTE 4 PREPAID EXPENSES

Prepaid expenses consisted of the following as of December 31, 2020:

Insurance Premiums	\$	21,500
Library Materials		69,449
Total	\$	<u>90,949</u>

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2020 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated/Amortized:				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
Capital Assets, Being Depreciated/Amortized:				
Buildings and Improvements	587,168	-	-	587,168
Vehicles	213,897	-	37,249	176,648
Furniture, Fixtures, and Equipment	327,225	5,040	-	332,265
Books and Materials (Collections)	496,966	22,978	-	519,944
Intangible Asset - Software	19,916	-	-	19,916
Total Capital Assets, Being Depreciated/Amortized	1,645,172	28,018	37,249	1,635,941
Accumulated Depreciation/Amortization for:				
Buildings and Improvements	288,671	16,351	-	305,022
Vehicles	141,536	24,820	37,249	129,107
Furniture, Fixtures, and Equipment	302,878	7,809	-	310,687
Books and Materials (Collections)	266,353	20,783	-	287,136
Intangible Asset - Software	3,319	6,639	-	9,958
Total Accumulated Depreciation/ Amortization	1,002,757	76,402	37,249	1,041,910
Total Capital Assets, Being Depreciated/Amortized, Net	642,415	104,420	74,498	594,031
Governmental Activities Capital Assets, Net	\$ 672,415	\$ 104,420	\$ 74,498	\$ 624,031

Depreciation expense during the current year was allocated as follows:

Governmental Activities	
Buildings	\$ 16,351
Vehicles	24,820
Library Operations	28,592
Software	6,639
Total Depreciation/Amortization Expense, Governmental Activities	\$ 76,402

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 6 UNEARNED REVENUE

Unearned revenue in the governmental funds consisted of grants for the Legacy Program that are collected in advance of eligibility requirements being met. Total unearned revenues at December 31, 2020 totaled \$111,981 in the Arts and Cultural Heritage Fund.

NOTE 7 LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2020 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Capital Leases Payable	\$ -	\$ 5,040	\$ 720	\$ 4,320	\$ 960
Compensated Absences Payable	47,662	14,593	-	62,255	-
Total Governmental Activity					
Long-Term Liabilities	<u>\$ 47,662</u>	<u>\$ 19,633</u>	<u>\$ 720</u>	<u>\$ 66,575</u>	<u>\$ 960</u>

Compensated absences are to record the accrued vacation benefit for the Library System's employees. Resources for the payment of compensated absences benefits payable included in long-term liabilities will be provided primarily by the General Fund. The capital lease is liquidated in the General Fund.

B. Capital Lease

The Library System has a lease agreement with Pitney Bowes for a mailing machine that was entered into during 2020. The lease period is for 63 months. The historical cost of these leases is \$5,040 with \$1,008 of related accumulated depreciation.

Minimal annual principal payments required to retire long-term debt are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 960
2022	960
2023	960
2024	960
2025	480
Total Minimum Lease Payments	<u>\$ 4,320</u>

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 8 FUND BALANCES

A. Nonspendable

Nonspendable balances include prepaid items of \$90,949 and an endowment held by the Minnesota Community Foundation of \$132,768.

B. Restricted

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

Branch	2019	2020				Balance
	Balance	Interest	Capital	Revenue	Expenditures	
Bemidji	\$ 51,080	\$ 297	\$ -	\$ 5,647	\$ 4,093	\$ 52,931
Blackduck	13,093	76	-	289	-	13,458
Brainerd	65,604	381	-	4,659	-	70,644
Cass Lake	8,712	51	-	245	32	8,976
KRL Headquarters	66,668	388	-	-	1,648	65,408
Longville	18,770	109	-	983	-	19,862
Park Rapids	25,541	148	-	3,601	2,458	26,832
Pine River	17,004	99	-	255	1,726	15,632
Wadena	29,968	174	-	1,374	1,902	29,614
Walker	14,132	82	-	406	162	14,458
Total	<u>\$ 310,572</u>	<u>\$ 1,805</u>	<u>\$ -</u>	<u>\$ 17,459</u>	<u>\$ 12,021</u>	317,815
Less: Kitchigami Regional Library - Classified as Committed						65,408
Total Restricted Fund Balance						<u>\$ 252,407</u>

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 8 FUND BALANCES (CONTINUED)

C. Committed

Following is a schedule of committed funds at December 31, 2020:

Automation	\$ 411,594
Sue Tricker Outreach	204,056
Crow Wing County	183,382
Regional Library Telecommunications Aid	173,557
Library Building	167,862
Endowment - Minnesota Community Foundation	132,768
Automation - Repair and Replacement - Headquarters	65,408
Outreach	58,645
Building Repair and Maintenance	40,968
Summer Reading	34,144
Loan Security	31,427
Software Accounting	25,827
Gates Grant	19,819
Headquarter's Gift	277
Total Committed Funds	<u><u>\$ 1,682,135</u></u>

NOTE 9 PENSION PLANS

A. Plan Description

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

1. General Employees Retirement Plan (General Employees Plan)

The General Employees Retirement Plan covers certain full time and part-time employees of the Library System's. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 9 PENSION PLANS (CONTINUED)

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

1. General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years 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.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 9 PENSION PLANS (CONTINUED)

C. Contributions

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

1. General Employees Plan Contributions

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2020 and the Library System was required to contribute 7.50% for Coordinated Plan members. The Library System's contributions to the General Employees Fund for the year ended December 31, 2020, were \$94,355. The Library System's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. General Employees Plan Pension Costs

At December 31, 2020, the Library System reported a liability of \$1,067,191 for its proportionate share of the General Employees Fund's net pension liability. The Library System's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$16 million. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with the Library System totaled \$33,000. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Library System's proportionate share of the net pension liability was based on the Library System's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2019 through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. The Library System's proportionate share was 0.178% at the end of the measurement period and 0.175% for the beginning of the period.

Library System's Proportionate Share of Net Pension Liability	\$ 1,067,191
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the Library System	33,000
Total	<u>\$ 1,100,191</u>

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 9 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Plan Pension Costs (Continued)

For the year ended December 31, 2020, the Library System recognized pension expense of \$28,559 for its proportionate share of the General Employees Plan's pension expense. In addition, the Library System recognized \$2,872 as grant revenue for its proportionate share of the state of Minnesota's pension expense for the annual \$16 million contribution.

At December 31, 2020, the Library System reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ 9,730	\$ 4,038
Changes in Actuarial Assumptions	-	39,565
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	18,436	-
Changes in Proportion	15,944	28,002
Library Contributions Subsequent to the Measurement Date	47,920	-
Total	<u>\$ 92,030</u>	<u>\$ 71,605</u>

The \$47,920 reported as deferred outflows of resources related to pensions resulting from Library System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Pension Expenses Amount</u>
2021	\$ (68,125)
2022	(10,221)
2023	25,068
2024	25,783

2. Total Pension Expense

The total pension expense for the General Employees Plan recognized by the Library system for the year ended December 31, 2020 was \$31,431.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 9 PENSION PLANS (CONTINUED)

E. Actuarial Assumptions

The total pension liability in the June 30, 2020, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Assumptions	GERF
Inflation	2.25% per Year
Active Member Payroll Growth	3.00% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on Pub-2010 General Employee Mortality table for the General Employees Plan. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for the General Employees Plan.

Actuarial assumptions used in the June 30, 2020 valuation were based on the results of actuarial experience studies. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2020:

Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 9 PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

Changes in Actuarial Assumptions (Continued):

- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions:

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real 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 Equity	35.5 %	5.10 %
International Equity	17.5	5.30
Private Markets	25.0	5.90
Fixed Income	20.0	0.75
Cash Equivalents	2.0	-
Totals	<u>100.0 %</u>	

F. Discount Rate

The discount rate used to measure the total pension liability in 2020 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 9 PENSION PLANS (CONTINUED)

G. Pension Liability Sensitivity

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

Description	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
Library's Proportionate Share of the General Employees Plan Net Pension Liability	\$ 1,710,338	\$ 1,067,191	\$ 536,647

H. Pension Plan Fiduciary Net Position

Detailed information about General Employees Plan's fiduciary's net position is available in a separately-issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org.

NOTE 10 RISK MANAGEMENT

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

There were no significant reductions in insurance coverage from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

NOTE 11 COMMITMENTS AND CONTINGENCIES

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the Library System expects such amounts, if any, to be immaterial. The financial assistance received is subject to audits by the grantor agency.

NOTE 12 PRIOR PERIOD ADJUSTMENT

During the current year it was determined that the liabilities and expenditures in the General Fund were overstated in the prior year due to an error.

To correct this error, beginning fund balance of the General Fund was restated by an increase of \$47,662.

	<u>General Fund</u>
Fund Balance, December 31, 2019, as Previously Reported	\$ 5,914,499
Restatement	47,662
Fund Balance, December 31, 2019, as Restated	<u>\$ 5,962,161</u>

OTHER REQUIRED SUPPLEMENTARY INFORMATION

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
YEAR ENDED DECEMBER 31, 2020**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Intergovernmental				
Federal Sources	\$ -	\$ -	\$ 13,000	\$ 13,000
State Sources	694,886	694,886	753,084	58,198
Other Sources	2,035,404	1,930,304	2,034,507	104,203
Interest Earnings	25,000	25,000	45,375	20,375
Sales	25,000	25,000	17,649	(7,351)
Automation	17,459	17,459	17,459	-
Miscellaneous	-	-	29,707	29,707
Total Revenues	<u>2,797,749</u>	<u>2,692,649</u>	<u>2,910,781</u>	<u>218,132</u>
EXPENDITURES				
Current:				
Library Operations	2,523,610	2,523,610	2,048,689	(474,921)
Building	23,500	23,500	72,556	49,056
Vehicle	-	-	22,668	22,668
Branch Collections	220,807	220,807	280,363	59,556
Library Materials	195,203	195,203	147,882	(47,321)
Board	31,000	31,000	28,757	(2,243)
Associate Service	21,050	21,050	10,000	(11,050)
Capital Outlay	4,400	4,400	5,040	640
Debt Service:				
Principal	-	-	720	720
Total Expenditures	<u>3,019,570</u>	<u>3,019,570</u>	<u>2,616,675</u>	<u>(402,895)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(221,821)	(326,921)	294,106	621,027
OTHER FINANCING SOURCES (USES)				
Insurance Proceeds	-	-	40,018	40,018
Proceeds from Capital Leases	-	-	5,040	5,040
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>45,058</u>	<u>45,058</u>
NET CHANGE IN FUND BALANCE	<u>\$ (221,821)</u>	<u>\$ (326,921)</u>	339,164	<u>\$ 666,085</u>
Fund Balance - Beginning of Year			5,914,499	
Restatement (See Note 12)			<u>47,662</u>	
Fund Balance - Beginning of Year, as Restated			<u>5,962,161</u>	
FUND BALANCE - END OF YEAR			<u>\$ 6,301,325</u>	

See accompanying Notes to Required Supplementary Information.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
 BUDGETARY COMPARISON SCHEDULE – ARTS AND CULTURAL HERITAGE FUND
 YEAR ENDED DECEMBER 31, 2020**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Intergovernmental				
State Sources	\$ 105,100	\$ 105,100	\$ 69,461	\$ (35,639)
EXPENDITURES				
Current:				
Legacy Program	105,100	105,100	69,461	(35,639)
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balance - Beginning of Year			-	
FUND BALANCE - END OF YEAR			<u>\$ -</u>	

See accompanying Notes to Required Supplementary Information.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
SCHEDULE OF THE LIBRARY SYSTEM'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST 10 FISCAL YEARS**

	Measurement Date June 30, 2020	Measurement Date June 30, 2019	Measurement Date June 30, 2018	Measurement Date June 30, 2017	Measurement Date June 30, 2016	Measurement Date June 30, 2015
PERA - General Employees Fund						
District's Proportion of the Net Pension Liability	0.0178%	0.0175%	0.0184%	0.0183%	0.0187%	0.0202%
District's Proportionate Share of the Net Pension Liability	\$ 1,067,191	\$ 967,536	\$ 1,020,757	\$ 1,168,260	\$ 1,518,347	\$ 1,046,869
State's Proportionate Share of the Net Pension Liability	33,000	30,165	33,653	14,672	19,889	-
District's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability	1,100,191	997,701	1,054,410	1,182,932	1,538,236	1,046,869
District's Covered Payroll	1,315,318	1,400,653	1,338,922	1,177,307	1,162,160	1,164,880
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	81.14%	69.08%	76.24%	99.23%	130.65%	89.87%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.06%	80.20%	79.53%	75.90%	68.91%	78.20%

NOTE: Information is presented prospectively and an accumulation of 10 years will be provided.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
SCHEDULE OF LIBRARY SYSTEM CONTRIBUTIONS
LAST 10 FISCAL YEARS**

	2020	2019	2018	2017	2016	2015
PERA - General Employees Fund						
Contractually Required Contribution	\$ 94,355	\$ 95,189	\$ 94,368	\$ 90,514	\$ 87,432	\$ 86,690
Contributions in Relation to the Contractually Required Contribution	(94,355)	(95,189)	(94,368)	(90,514)	(87,432)	(86,690)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 1,258,067	\$ 1,269,187	\$ 1,258,240	\$ 1,206,853	\$ 1,165,760	\$ 1,155,867
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%

NOTE: Information is presented prospectively and an accumulation of 10 years will be provided.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2020**

NOTE 1 LEGAL COMPLIANCE – BUDGETS

The Library System board adopts annual budgets for the General Fund and the Arts and Cultural Heritage Funds. These budgets and the actual amounts are both prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

In the following funds, expenditures exceeded the appropriations during the year ended December 31, 2020:

Fund	Function	Budget	Expenditures	Excess
General Fund	Current:			
	Building	\$ 23,500	\$ 72,556	\$ 49,056
	Vehicle	-	22,668	22,668
	Branch Collections	220,807	280,363	59,556
	Capital Outlay	4,400	5,040	640
	Debt Service:			
	Principal	-	720	720

The overage above was considered by Library System management to be the result of necessary expenditures critical to operations. They were financed by greater than anticipated grant and tax revenues.

NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended December 31:

2020

Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
LAST TEN FISCAL YEARS**

**NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS,
AND ASSUMPTIONS (CONTINUED)**

2020 (Continued)

Changes in Actuarial Assumptions (Continued):

- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions:

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreased from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018

Changes in Actuarial Assumption

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed postretirement benefit increase was changed from 1.0% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

Changes in Plan Provisions

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after December 31, 2024.
- Interest credited on member contributions decreased from 4.00% to 3.00%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
YEAR ENDED DECEMBER 31, 2020**

**NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS,
AND ASSUMPTIONS (CONTINUED)**

2018 (Continued)

Changes in Plan Provisions (Continued)

- Postretirement benefit increases were changed from 1.00% per year with a provision to increase to 2.50% upon attainment of 90.00% funding ratio to 50.00% of the Social Security Cost of Living Adjustment, not less than 1.00% and not more than 1.50% beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

Changes in Actuarial Assumption

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

Changes in Plan Provisions

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2016

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00% per year through 2035 and 2.50% per year thereafter to 1.00% per year for all future years.
- The assumed investment return was changed from 7.90% to 7.50%. The single discount rate was changed from 7.90% to 7.50%.
- Other assumptions were changed pursuant to the experience study dated December 31, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

Changes in Actuarial Plan Provisions

- There have been no changes since the prior valuation.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
YEAR ENDED DECEMBER 31, 2020**

**NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS,
AND ASSUMPTIONS (CONTINUED)**

2015

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00% per year through 2035 and 2.50% per year thereafter to 1.00% per year for all years.
- The assumed investment return was changed from 7.90% to 7.50%. The single discount rate changed from 7.90% to 7.50%.
- Other assumptions were changed pursuant to the experience study December 31, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

SUPPLEMENTARY INFORMATION

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
 DETAILED REVENUE AND EXPENSE SCHEDULE – ENTITY WIDE
 YEAR ENDED DECEMBER 31, 2020**

INTERGOVERNMENTAL AND LOCAL REVENUE

State:

State Aid	\$ 760,085
Special/Grants	69,460
Total State	829,545

County:

Beltrami	412,386
Cass	386,483
Crow Wing	509,127
Hubbard	215,968
Wadena	99,401
Total County	1,623,365

City:

Bemidji	143,162
Blackduck	16,494
Brainerd	87,173
Cass Lake	8,400
Longville	9,710
Park Rapids	52,908
Pine River	13,233
Wadena	70,945
Walker	15,117
Total City	417,142

Total Intergovernmental and Local Revenue	2,870,052
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OTHER REVENUE

Interest on Savings and CD's	35,228
Insurance Proceeds	40,018
Endowment Investment Income and Gains	10,147
Automation	17,459
Sales:	
Copies and Faxes	17,649
Miscellaneous Gifts and Other	29,707
Total Other Revenue	150,208

Total Revenues	\$ 3,020,260
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**KITCHIGAMI REGIONAL LIBRARY SYSTEM
 DETAILED REVENUE AND EXPENSE SCHEDULE – ENTITY WIDE (CONTINUED)
 YEAR ENDED DECEMBER 31, 2020**

EXPENSES

Library Materials	
Branch Collections	\$ 257,384
E-Materials	116,113
Periodicals and Papers	19,585
Shared Databases	12,184
Total Library Materials	<u>405,266</u>
 Library Operations:	
Automation Operating Costs	97,809
Communications/Dataline/Fax	55,244
Postage	3,598
Library Supplies	17,714
Office Supplies	32,988
Shared Processing Cost	15,320
Interlibrary Service Maintenance	43,625
Winter Reading Program	4,800
Summer Reading Program	294
CARES Act Expense	44,355
Other	23,857
Total Library Operations	<u>339,604</u>
 Vehicle:	
Delivery Van/Staff Van/Mobile Library Gas and Oil	8,608
Delivery Van/Staff Van/Mobile Library Repairs	9,376
Vehicles/Mobile Library Insurance	4,684
Total Vehicle	<u>22,668</u>
 Building:	
Insurance - Contents and Liability	7,409
Repairs and Maintenance	58,055
Electric	4,271
Gas	1,110
Sanitation/Disposal	861
Sewer	504
Water	346
Total Building	<u>72,556</u>
 Board:	
Meetings	1,017
Professional Fees and Dues/Special Projects	24,780
Insurance	2,960
Total Board	<u>28,757</u>
 Legacy Program Expenses	69,461

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
 DETAILED REVENUE AND EXPENSE SCHEDULE – ENTITY WIDE (CONTINUED)
 YEAR ENDED DECEMBER 31, 2020**

EXPENSES (CONTINUED)

Branch Salaries:	
Bemidji	\$ 248,447
Blackduck	37,718
Brainerd	290,189
Cass Lake	31,944
Longville	39,052
Park Rapids	135,290
Pine River	65,596
Wadena	81,500
Walker	63,673
Total Branch Salaries	<u>993,409</u>
Regional Salaries:	
System Support	179,268
Technical Services	47,818
Interlibrary Loan	29,133
Mobile Library Salaries	35,816
Delivery	25,715
Total Regional Salaries	<u>317,750</u>
Employee Benefits:	
FICA	104,860
Health Benefits	181,511
PERA	100,815
Workers' Compensation	7,757
Unemployment	11,444
Total Employee Benefits	<u>406,387</u>
Miscellaneous:	
Meetings	86
Training	3,848
Travel	237
Investment Fees/Admin	1,516
Recruiting	6,614
Associate Service	10,000
Other	462
Total Miscellaneous	<u>22,763</u>
Depreciation/Amortization:	
Books and Materials	28,592
Buildings and Equipment	41,171
Software	6,639
Total Depreciation/Amortization	<u>76,402</u>
Total Expenses	<u><u>\$ 2,755,023</u></u>

**OTHER INFORMATION
(UNAUDITED)**

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
SCHEDULE OF MINNESOTA LEGACY GRANT FUNDING
YEAR ENDED DECEMBER 31, 2020**

	2020	2019	2018	2017	2016	2015
Cash Reconciliation						
Beginning Cash (Deficit)	\$ 80,246	\$ 79,231	\$ 66,245	\$ 22,181	\$ 45,970	\$ (8,365)
Cash Receipts	101,196	107,831	106,799	99,047	45,640	166,689
Cash Expenditures	(69,461)	(106,816)	(93,813)	(54,983)	(69,429)	(112,354)
Ending Cash (Deficit)	<u>\$ 111,981</u>	<u>\$ 80,246</u>	<u>\$ 79,231</u>	<u>\$ 66,245</u>	<u>\$ 22,181</u>	<u>\$ 45,970</u>
Governmental Funds Reconciliation						
Cash Receipts	\$ 101,196	\$ 107,831	\$ 106,799	\$ 99,047	\$ 45,640	\$ 166,689
Prior Year Grant Receivable	-	-	-	-	-	(57,455)
Prior Year Deferred Revenue	80,246	79,173	66,245	22,181	45,970	48,796
Deferred Revenue	(111,981)	(80,246)	(79,173)	(66,245)	(22,181)	(45,970)
Revenue	<u>69,461</u>	<u>106,758</u>	<u>93,871</u>	<u>54,983</u>	<u>69,429</u>	<u>112,060</u>
Cash Expenditures	69,461	106,816	93,813	54,983	69,429	112,354
Prior Year Accounts Payable	-	(58)	-	-	-	(294)
Accounts Payable	-	-	58	-	-	-
Governmental Funds Expense	<u>69,461</u>	<u>106,758</u>	<u>93,871</u>	<u>54,983</u>	<u>69,429</u>	<u>112,060</u>
Governmental Funds Increase (Decrease)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Governmental Funds Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Entity-Wide Reconciliation						
Capital Assets Purchased	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation	-	-	-	-	199	400
Entity-Wide Expense	<u>69,461</u>	<u>106,758</u>	<u>93,871</u>	<u>54,983</u>	<u>69,429</u>	<u>112,060</u>
Entity-Wide (Decrease)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (199)</u>	<u>\$ (400)</u>
Net Position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 199</u>

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
SCHEDULE OF REGIONAL LIBRARY TELECOMMUNICATION AID – CASH BASIS
YEAR ENDED DECEMBER 31, 2020**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
REVENUE	\$ 41,030	\$ 39,884	\$ 39,882	\$ 40,991	\$ 40,217	\$ 6,844
EXPENDITURES						
Priority 1:						
Datalines	46,274	39,883	51,203	31,285	47,906	44,552
Telephone	15,209	15,853	-	18,195	17,046	24,387
Remote Access	615	441	312	208	312	312
Internet Access	8,885	-	-	-	-	-
Priority 2:						
Internal Connections	4,998	1,119	36,713	5,100	1,913	14,836
Total Expenditures	<u>75,981</u>	<u>57,296</u>	<u>88,228</u>	<u>54,788</u>	<u>67,177</u>	<u>84,087</u>
REVENUES (UNDER) EXPENDITURES	<u>\$ (34,951)</u>	<u>\$ (17,412)</u>	<u>\$ (48,346)</u>	<u>\$ (13,797)</u>	<u>\$ (26,960)</u>	<u>\$ (77,243)</u>

OTHER REQUIRED REPORTS



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Kitchigami Regional Library System
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 Kitchigami Regional Library System (the Library System), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Library System's basic financial statements, and have issued our report thereon dated September 7, 2021.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2020-001 to 2020-003 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as item 2020-004 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library System’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 financial statements. 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*.

The Library System’s Responses to Findings

The Library System’s responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Library System’s responses were not subjected 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 result of that testing, and not to provide an opinion on the effectiveness of the Library System’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Library System’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Brainerd, Minnesota
September 7, 2021



INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Directors
Kitchigami Regional Library System
Pine River, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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 information of Kitchigami Regional Library System (the Library System) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Library System's financial statements as listed in the table of contents and have issued our report thereon dated September 7, 2021.

In connection with our audit, we noted that the Library System failed to comply with provisions of the deposits and investments provisions of *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, in so far as they relate to accounting matters as described in the schedule of findings and responses as item 2020-005. Also, in connection with our audit, nothing came to our attention that caused us to believe that the Library System failed to comply with the provisions of the contracting and bidding, conflicts of interest, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Library System's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

The Library System's written response to the legal compliance finding identified in our audit is described in the schedule of findings and responses. The Library System's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Brainerd, Minnesota
September 7, 2021



**KITCHIGAMI REGIONAL LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2020**

MATERIAL WEAKNESSES (FINANCIAL REPORTING):

Finding: 2020-001	Financial Reporting Process
Condition:	As part of the audit, management requested us to prepare a draft of the financial statements, including the related notes to the financial statements.
Criteria:	Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial statements including the related disclosures, in conformity with GAAP.
Effect:	The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the Library System's internal controls.
Cause:	The Library System's management have not monitored recent accounting developments to the extent necessary to enable them to prepare the financial statements and related disclosures, to provide a high level of assurance that potential omissions or other errors that are material would be identified.
Repeat Finding:	Yes, 2019-003.
Recommendation:	Management should continue to evaluate their internal staff capacity to determine if an internal control policy over the annual financial reporting is beneficial.
Views of Responsible Officials:	There is no disagreement with the audit finding. The Library System will continue to rely upon the audit firm to prepare the financial statements and related footnote disclosures and will review and approve these prior to the issuance of the annual financial statements.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2020**

MATERIAL WEAKNESSES (FINANCIAL REPORTING) (CONTINUED):

Finding: 2020-002	Limited Segregation of Duties
Condition:	Due to the limited size of the Library System's business office staff, the Library System has limited segregation of duties. Currently procedures over transaction cycles related to cash disbursements, billing, and payroll at the Library System has limited segregation of duties.
Criteria:	Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.
Effect:	Inadequate segregation of duties could adversely affect the Library System's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.
Cause:	There is a limited number of staff in the business office.
Repeat Finding:	Yes, 2019-001.
Recommendation:	We recommend that the Library System continue to segregate duties as best it can within the limits of what the Library System considers to be cost beneficial.
Views of Responsible Officials:	There is no disagreement with the audit finding. The Library System reviews and makes improvements to its internal controls on an ongoing basis, and attempts to maximize the segregation of duties in all areas within the limits of the staff available.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2020**

MATERIAL WEAKNESSES (FINANCIAL REPORTING) (CONTINUED):

Finding: 2020-003	Audit Adjustments
Condition:	As part of the audit, we proposed material adjustments related to recording payables and receivables in accordance with GAAP and related to recording prepaids balances.
Criteria:	Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair representation in the financial statements in accordance with U.S. generally accepted accounting principles. Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include adjusting the financial statement to correct material misstatements and produce accurate financial statements on a timely basis.
Effect:	Controls over year-end closing could affect the Library System's ability to detect or prevent errors.
Cause:	The Library System does not have enough office staff with enough time to record these adjustments.
Repeat Finding:	No
Recommendation:	We recommend that Library System management and financial personnel continue to work on establishing a process to ensure the recording of all related transactions to properly adjust financial statements at year-end.
Views of Responsible Officials:	There is no disagreement with the audit finding. The Library System will create a process to ensure the proper and timely recording of all adjustments in order to produce accurate and timely financial statements.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2020**

SIGNIFICANT DEFICIENCIES (FINANCIAL REPORTING):

Finding: 2020-004	Fund Balance Policy
Condition:	As part of the audit, we noted that the Library System did not have a Board approved Fund Balance policy.
Criteria:	Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Library System are described in Note 1 to the financial statements. There is no formal Fund Balance policy approved by the Board to guide management in keeping track of their fund balances throughout the year.
Effect:	Practices may not be followed as intended by management and personnel may not understand the purpose of internal controls.
Cause:	The Library System's Board of Directors has not yet passed a policy.
Repeat Finding:	No
Recommendation:	We recommend that Library System management work with the Board of Directors to approve a Fund Balance policy as soon as possible.
Views of Responsible Officials:	There is no disagreement with the audit finding. The Library System's management will work with the board to develop a Fund Balance Policy.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2020**

FINDINGS RELATED TO MINNESOTA LEGAL COMPLIANCE

Finding: 2020-005	Deposits and Investments
Condition and Context:	The Library System lacked sufficient collateral to cover its uninsured deposits on December 31, 2020.
Criteria:	Minnesota statutes require local governments to obtain collateral which, when computed at market value, shall be at least 10% more than the amount of any deposits in excess of FDIC insurance at the close of each banking day.
Effect:	The Library System is not in compliance with state statutes.
Cause:	Unknown.
Repeat Finding:	Yes, 2019-004
Recommendation:	We recommend that Library System management put procedures in place to monitor its excess deposits on a daily basis to ensure it maintains sufficient collateral.
Views of Responsible Officials:	There is no disagreement with the audit finding.

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