

**KITCHIGAMI REGIONAL LIBRARY**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2019**

**KITCHIGAMI REGIONAL LIBRARY**

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## **INTRODUCTORY SECTION**

**KITCHIGAMI REGIONAL LIBRARY  
OFFICIAL DIRECTORY  
DECEMBER 31, 2019**

<b>POSITION</b>	<b>NAME</b>
-----------------	-------------

**OFFICIALS**

Chair	Cass County	Neal Gaalswyk
Vice-Chair	City of Park Rapids	Thomas Conway
Secretary	City of Brainerd	Mary Koep
Treasurer	Wadena County	Jim Hofer
Director		Stephanie Johnson

**DIRECTORS**

Reed Olson (County Commissioner)	Beltrami County	Nancy Erickson	City of Bemidji
Neal Gaalswyk (County Commissioner)	Cass County	Kendra Murray	City of Blackduck
Bill Brekken (County Commissioner)	Crow Wing County	Mary Koep	City of Brainerd
Thomas Krueger (County Commissioner)	Hubbard County	Richard Molash	City of Cass Lake
Jim Hofer (County Commissioner)	Wadena County	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**



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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Kitchigami Regional Library  
Pine River, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Kitchigami Regional Library (the Library) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Basis for Qualified Opinion

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

## Qualified Opinion

In our opinion, except for the possible effects of the matter described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Library as of December 31, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

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

### *Other Information*

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

The *Detailed Revenue and Expense Schedule - Entity-Wide*, *Schedule of Minnesota Legacy Grant Funding*, and *Schedule of Regional Library Telecommunication Aid – Cash Basis* are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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, the *Detailed Revenue and Expense Schedule - Entity-Wide*, *Schedule of Minnesota Legacy Grant Funding*, and *Schedule of Regional Library Telecommunication Aid – Cash Basis* are fairly stated in all material respects, in relation to the basic financial statements as a whole.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2020, on our consideration of the Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Library's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Library's internal control over financial reporting and compliance.

*Clasen Stegner & Schiessl CPAs, Ltd.*

Clasen Stegner & Schiessl CPAs, Ltd.  
Consultants & Accountants

Pequot Lakes, Minnesota  
August 4, 2020

**KITCHIGAMI REGIONAL LIBRARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2019**

The Library's Management's Discussion and Analysis (MD&A) provides an overview of the Library's financial activities for the fiscal year ended December 31, 2019. This discussion should be read in conjunction with the Library's financial statements which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

- ◆ Governmental activities' total net position is \$5,546,778, of which \$672,415 is net investment in capital assets, and \$372,981 is restricted to specific purposes.
- ◆ The Library's governmental activities' net position increased by \$379,745 for the year ended December 31, 2019.
- ◆ As of the close of the current fiscal year, the Governmental Funds reported combined ending fund balances of \$5,914,499 an increase of \$358,765 from the prior year. \$3,766,385 of this amount is available for spending at the Library's discretion. At the end of the current fiscal year, nonspendable fund balance was \$170,646, restricted fund balance was \$243,904, and committed fund balance was \$1,733,564.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

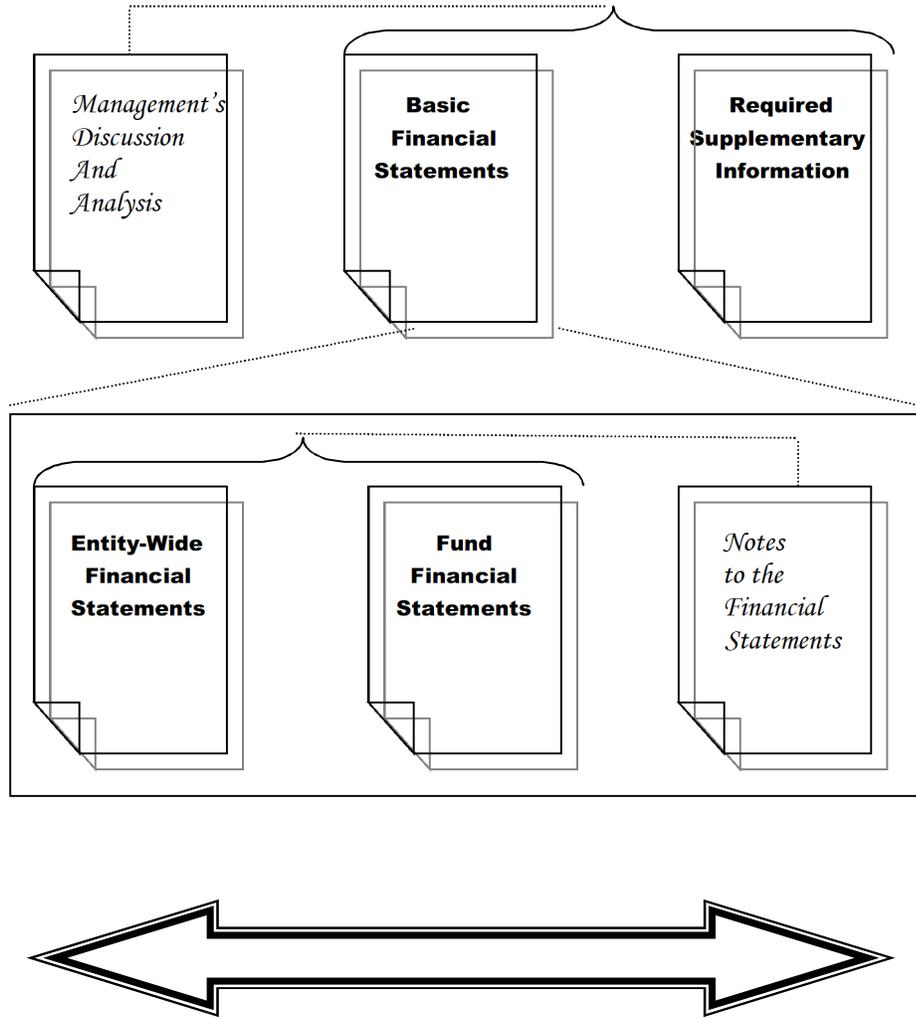
The MD&A is intended to serve as an introduction to the basic financial statements. The basic financial statements consist of three parts: (1) entity-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

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

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. Figure 1 shows how the required sections of this annual report are arranged and relate to each other.

**KITCHIGAMI REGIONAL LIBRARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2019**

**Figure 1  
Required Components of the  
Library's Annual Financial Report**



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

**KITCHIGAMI REGIONAL LIBRARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2019**

**Figure 2**

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

<i>Type of Statements</i>	<b>Entity-wide</b>	<b>Governmental Funds</b>
<i>Scope</i>	Entire Library	The activities of the Library that are not Proprietary or Fiduciary
<i>Required Financial Statements</i>	<ul style="list-style-type: none"> <li>◆ Statement of Net Position</li> <li>◆ Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>◆ Balance sheet</li> <li>◆ Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
<i>Type of Asset/Deferred Outflows of Resources/Liabilities/Deferred Inflows of Resources Information</i>	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, short-term and long-term	Generally assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due during the year or soon thereafter; no capital assets or long-term liabilities included
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

**Entity-Wide Statements**

The entity-wide statements are designed to provide readers with a broad overview of the Library's finances in a manner similar to private-sector business. The statement of net position includes all of the Library's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

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

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

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

**Fund Financial Statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Library only has Governmental Funds.

**KITCHIGAMI REGIONAL LIBRARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2019**

**Fund Financial Statements (Continued)**

*Governmental Funds* are used to account for essentially the same functions reported as governmental activities in the entity-wide financial statements. However, unlike the entity-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Library's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the entity-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the entity-wide financial statements. By doing so, readers may better understand the long-term impact of the Library's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Library maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and special revenue funds.

The Library adopts an annual appropriated budget for its General and other governmental funds. A budgetary comparison statement has been provided for the General and other major governmental fund to demonstrate compliance with this budget.

**Entity-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the Library as a whole, assets and deferred outflows of resources, exceeded liabilities and deferred inflows of resources by \$5,546,778 as of December 31, 2019.

A large portion of the Library's net position is unrestricted (83.5%). These funds are to be used to meet the Library's ongoing obligations to its members and for the Library's funded programs and activities. An additional portion of the Library's net position (4.4%) represents resources that are restricted for automation repair and replacement for the branches. The remaining portion of the Library's net position (12.1%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and intangible assets). The Library uses these capital assets to provide services to members; consequently, these assets are not available for future spending.

**Net Position**

	December 31,	
	2019	2018
Current Assets	\$ 4,419,379	\$ 4,103,587
Assets - Designated	1,733,564	1,723,773
Capital Assets (Net)	672,415	684,571
Total Assets	<u>6,825,358</u>	<u>6,511,931</u>
Deferred Outflows of Resources	214,996	361,670
Current Liabilities	110,536	154,641
Long-Term Liabilities	1,015,198	1,058,569
Total Liabilities	<u>1,125,734</u>	<u>1,213,210</u>
Deferred Inflows of Resources	367,842	493,358
Net Position		
Net Investment in Capital Assets	672,415	684,571
Restricted	372,981	227,178
Unrestricted	4,501,382	4,255,284
Total Net Position	<u>\$ 5,546,778</u>	<u>\$ 5,167,033</u>

**KITCHIGAMI REGIONAL LIBRARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2019**

**Entity-wide Financial Analysis (Continued)**

At the end of the current fiscal year, the Library is able to report positive balances in all categories of net position.

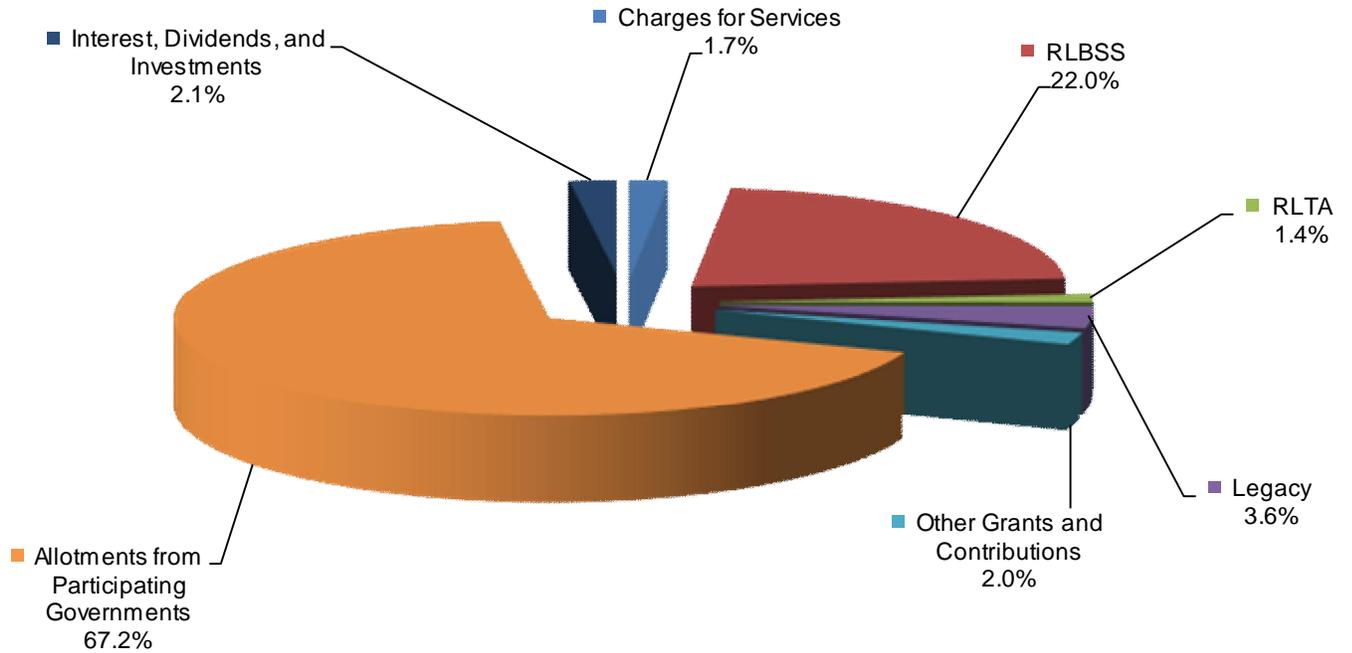
The total net position of the Library increased by \$379,745. The increase is mainly due to expenditures under budgeted amounts and higher than budgeted donations and interest in the General Fund

**Changes in Net Position**

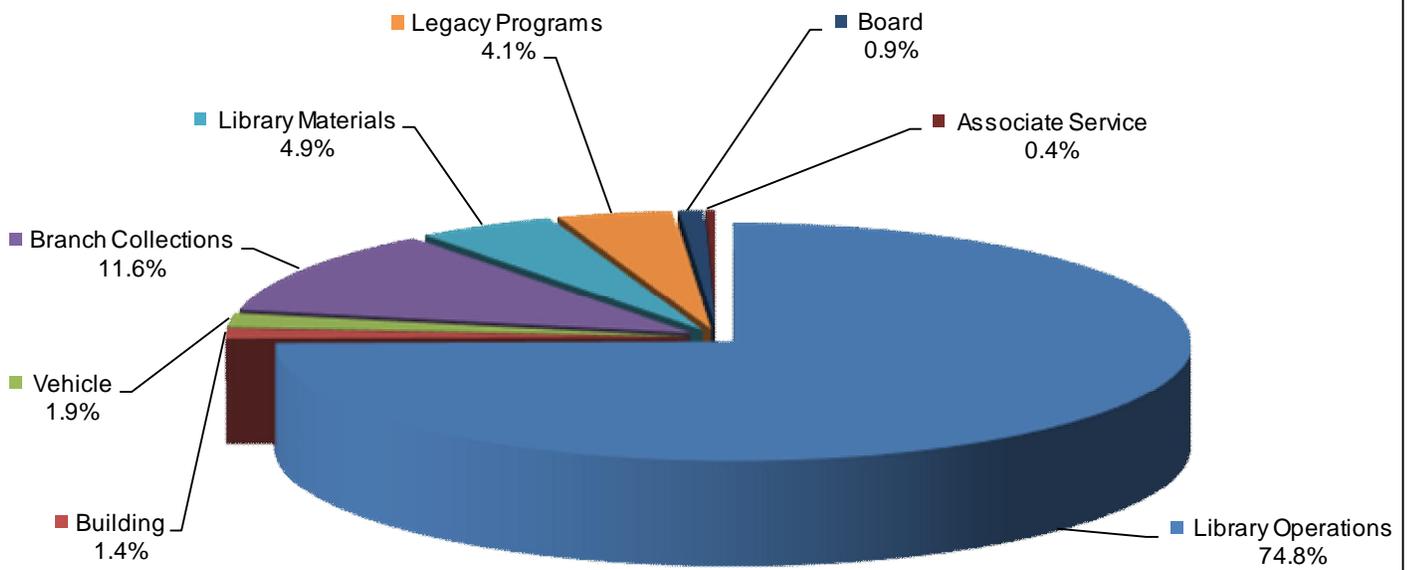
	Year ended December 31,	
	2019	2018
REVENUES		
Program		
Charges for Services	\$ 49,011	\$ 49,957
Regional Library Basic System Support Grant (RLBSS)	648,471	641,240
Regional Library Telecommunications Aid Grant (RLTA)	39,884	39,882
Legacy Grant	106,758	93,871
Other Grants and Contributions	59,655	112,035
General		
Allotments from Participating Governments	1,985,825	1,959,947
Interest, Dividends, and Investments	63,012	30,370
Total Revenues	<u>2,952,616</u>	<u>2,927,302</u>
EXPENSES		
Library Operations	1,923,408	1,925,656
Building	35,116	36,779
Vehicle	48,334	49,197
Branch Collections	298,479	205,362
Library Materials	127,069	129,455
Legacy Programs	106,758	93,871
Board	23,707	31,292
Associate Service	10,000	10,000
Total Expenses	<u>2,572,871</u>	<u>2,481,612</u>
CHANGE IN NET POSITION	379,745	445,690
Net Position - Beginning of Year	<u>5,167,033</u>	<u>4,721,343</u>
NET POSITION - END OF YEAR	<u><u>\$ 5,546,778</u></u>	<u><u>\$ 5,167,033</u></u>

**KITCHIGAMI REGIONAL LIBRARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2019**

**Governmental Activities Revenues by Source**



**Governmental Activities Expenses by Type**



**KITCHIGAMI REGIONAL LIBRARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2019**

**Fund Financial Analysis**

As noted earlier, the Library uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the Library's Governmental Funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Library's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of the government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Library's Governmental Funds reported combined ending fund balances of \$5,914,499, an increase of \$358,765 from the prior year.

The *General Fund* is the primary operating fund of the Library. At the end of the current year, the unassigned fund balance of the General Fund was \$3,766,385. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. The ending unassigned fund balance for the Library represents 151.6% of General Fund expenditures for the year.

During the current fiscal year, the fund balance of the Library's General Fund increased by \$358,765. The increase is due to higher donations and interest and expenditures under budget.

The *Special Revenue Fund* has a total fund balance of \$0. There was no change in fund balance during the current year.

**Budget Highlights**

The budget is set by the Board of Directors prior to the current year. Mid-year budget updates do not occur. The most significant budgeted fund is the General Fund.

The adopted budget anticipates revenues of \$2,727,061 and expenditures of \$2,913,558.

**Capital Assets and Debt Administration**

**Capital Assets.** The Library's investment in capital assets for its governmental activities as of December 31, 2019, amounts to \$672,415 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, vehicles, furniture, fixtures, equipment, library collections, and intangible assets. The total net decrease in the Library's investment in capital assets for the current fiscal year was - 1.8%. The decrease was due to capital asset additions of \$62,677 being less than the depreciation deduction of \$74,833 and net dispositions of \$0.

The following is a schedule of capital assets as of December 31:

**Capital Assets  
(Net of Depreciation/Amortization)**

	Governmental Activities	
	2019	2018
Land	\$ 30,000	\$ 30,000
Buildings and Improvements	298,497	314,987
Vehicles	72,361	100,905
Furniture, Fixtures, and Equipment	24,347	31,997
Books and Materials (Collections)	230,613	206,682
Intangible Assets - Software	16,597	-
Total	\$ 672,415	\$ 684,571

**KITCHIGAMI REGIONAL LIBRARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2019**

**Capital Assets and Debt Administration (Continued)**

**Long-term Liabilities.** The long-term liability balances as of December 31 are:

**Long-Term Liabilities**

	Governmental Activities	
	2019	2018
Accrued Compensated Absences	\$ 47,662	\$ 37,812
Net Pension Liability	967,536	1,020,757
	\$ 1,015,198	\$ 1,058,569

During the current fiscal year, the Library's long-term compensated absences increased by \$9,850 (26.0%), and the net pension liability decreased by \$53,221 (5.2%).

**Factors Bearing on the Library's Future**

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

**CONTACTING THE LIBRARY'S FINANCIAL MANAGEMENT**

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

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

## BASIC FINANCIAL STATEMENTS

**KITCHIGAMI REGIONAL LIBRARY  
STATEMENT OF NET POSITION  
DECEMBER 31, 2019**

	GOVERNMENTAL ACTIVITIES
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 4,246,407
Cash and Cash Equivalents - Designated	1,733,564
Investment - Minnesota Community Foundation	129,077
Prepaid Expenses	41,569
Interest Receivable	2,326
Capital Assets:	
Land	30,000
Buildings and Improvements	587,168
Vehicles	213,897
Furniture, Fixtures, and Equipment	327,225
Library Collections	496,966
Less Accumulated Depreciation	(999,438)
Intangible Assets - Software	19,916
Less Accumulated Amortization	(3,319)
Total Assets	6,825,358
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension Related	214,996
 <b>LIABILITIES</b>	
Accounts Payable	51,628
Sales Tax Payable	936
Accrued Payroll	57,972
Accrued Compensated Absences	
Due in More Than One Year	47,662
Net Pension Liability	
Due in More Than One Year	967,536
Total Liabilities	1,125,734
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension Related	287,596
Advance Allotments	80,246
Total Deferred Inflows of Resources	367,842
 <b>NET POSITION</b>	
Net Investment in Capital Assets	672,415
Restricted	372,981
Unrestricted	4,501,382
Total Net Position	\$ 5,546,778

**KITCHIGAMI REGIONAL LIBRARY  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2019**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	TOTAL GOVERNMENTAL ACTIVITIES
<b>Governmental Activities:</b>				
Library Operations	\$ 1,923,408	\$ 49,011	\$ 748,010	\$ (1,126,387)
Building	35,116	-	-	(35,116)
Vehicle	48,334	-	-	(48,334)
Branch Collections	298,479	-	-	(298,479)
Library Materials	127,069	-	-	(127,069)
Legacy Programs	106,758	-	106,758	-
Board	23,707	-	-	(23,707)
Associate Service	10,000	-	-	(10,000)
Total Governmental Activities	<u>\$ 2,572,871</u>	<u>\$ 49,011</u>	<u>\$ 854,768</u>	<u>(1,669,092)</u>
<b>General Revenues:</b>				
Allotments from Participating Governments				1,985,825
Interest, Dividends, and Investments				<u>63,012</u>
Total General Revenues				<u>2,048,837</u>
CHANGE IN NET POSITION				379,745
Net Position - Beginning				<u>5,167,033</u>
NET POSITION - ENDING				<u>\$ 5,546,778</u>

**KITCHIGAMI REGIONAL LIBRARY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2019**

	GENERAL	ARTS AND CULTURAL HERITAGE	TOTAL
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 4,166,161	\$ 80,246	\$ 4,246,407
Cash and Cash Equivalents - Designated	1,733,564	-	1,733,564
Investment - Minnesota Community Foundation	129,077	-	129,077
Prepaid Expenses	41,569	-	41,569
Interest Receivable	2,326	-	2,326
	<u>2,326</u>	<u>-</u>	<u>2,326</u>
Total Assets	<u>\$ 6,072,697</u>	<u>\$ 80,246</u>	<u>\$ 6,152,943</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 51,628	\$ -	\$ 51,628
Sales Tax Payable	936	-	936
Accrued Payroll	57,972	-	57,972
Accrued Compensated Absences	47,662	-	47,662
	<u>47,662</u>	<u>-</u>	<u>47,662</u>
Total Liabilities	<u>158,198</u>	<u>-</u>	<u>158,198</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>-</u>	<u>80,246</u>	<u>80,246</u>
<b>FUND BALANCES</b>			
Nonspendable	170,646	-	170,646
Restricted	243,904	-	243,904
Committed	1,733,564	-	1,733,564
Unassigned	3,766,385	-	3,766,385
	<u>3,766,385</u>	<u>-</u>	<u>3,766,385</u>
Total Fund Balances	<u>5,914,499</u>	<u>-</u>	<u>5,914,499</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 6,072,697</u>	<u>\$ 80,246</u>	<u>\$ 6,152,943</u>

**KITCHIGAMI REGIONAL LIBRARY  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2019**

Total Fund Balances - Governmental Funds	\$ 5,914,499
Total Net Position reported for governmental activities in the Statement of Net Position are different because:	
Capital Assets used in governmental activities are not financial resources and therefore are not reported as assets in the Governmental Funds	
Cost of Capital Assets	1,675,172
Accumulated Depreciation/Amortization	(1,002,757)
GASB Statement No. 68 Accounting for the Net Pension Obligation is not reported in the Government Funds	
Deferred Outflows - Pension Related	214,996
Net Pension Liability	(967,536)
Deferred Inflows - Pension Related	<u>(287,596)</u>
<b>TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES</b>	<b><u><u>\$ 5,546,778</u></u></b>

**KITCHIGAMI REGIONAL LIBRARY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2019**

	GENERAL	ARTS AND CULTURAL HERITAGE	TOTAL
<b>REVENUES</b>			
Intergovernmental			
State Aid	\$ 695,530	\$ 106,758	\$ 802,288
Local Aid	1,985,825	-	1,985,825
Interest, Dividends, and Investments	63,012	-	63,012
Sales	49,011	-	49,011
Automation	17,459	-	17,459
Donations, Refunds, and Miscellaneous	32,762	-	32,762
	<u>2,843,599</u>	<u>106,758</u>	<u>2,950,357</u>
Total Revenues			
<b>EXPENDITURES</b>			
Current			
Library Operations	1,943,315	-	1,943,315
Building	18,626	-	18,626
Vehicle	19,790	-	19,790
Branch Collections	279,650	-	279,650
Library Materials	127,069	-	127,069
Legacy Program	-	106,758	106,758
Board	23,707	-	23,707
Associate Service	10,000	-	10,000
Capital Outlay			
Branch Collections	62,677	-	62,677
	<u>2,484,834</u>	<u>106,758</u>	<u>2,591,592</u>
Total Expenditures			
NET CHANGE IN FUND BALANCE	358,765	-	358,765
Fund Balances - Beginning of Year	5,555,734	-	5,555,734
FUND BALANCES - END OF YEAR	<u>\$ 5,914,499</u>	<u>\$ -</u>	<u>\$ 5,914,499</u>

**KITCHIGAMI REGIONAL LIBRARY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2019**

Net Increase in Fund Balance - Governmental Funds	\$ 358,765
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Capital Outlays are reported in Governmental Funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as Depreciation Expense	
Capital Outlay, Net of Disposals	62,677
Depreciation Expense	(74,833)
GASB Statement No. 68 Accounting for the Net Pension Obligation is not reported in the Government Funds	
Change in the Net Pension Liability and Related Deferred Amounts	<u>33,136</u>
<b>CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES</b>	<b><u><u>\$ 379,745</u></u></b>

## NOTES TO FINANCIAL STATEMENTS

**KITCHIGAMI REGIONAL LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Kitchigami Regional Library (the Library), a Minnesota Municipal Corporation, is an autonomous governmental unit, created by contractual agreement with various authorities that provides library services in Beltrami, Cass, Crow Wing, Hubbard, and Wadena counties. Funding is obtained from these counties and various cities located within these counties as 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.

The following is a summary of the Library's significant accounting policies:

**A. Financial Reporting Entity**

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

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

The Library's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

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

Entity-Wide Financial Statements

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

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

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

**KITCHIGAMI REGIONAL LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

Fund Financial Statements

The governmental fund financial statements (i.e., the balance sheet and statement of revenues, expenditures, and changes in fund balances) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

A fund is considered major if it is the primary operating fund of the Library or meets the following criteria:

- ◆ Total assets, liabilities, revenues, or expenditures of that individual governmental fund are at least 10% of the corresponding total for all funds of that category type.

The Library reports the following major governmental funds:

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

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

All Government Funds are presented as major for the convenience of the readers of the financial statements.

**C. Financial Statement Amounts**

Deposits and Investments – The Library has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value.

Investments of the Library 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, Deposits and Investments.

**KITCHIGAMI REGIONAL LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

C. Financial Statement Amounts (Continued)

Receivables

All trade receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible accounts reflects management's best estimate of the amounts that will not be collected. At December 31, 2019, the allowance was \$0.

Capital Assets – Capital assets are recorded in the entity-wide financial statements, but are not reported in the fund financial statements. Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated acquisition value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

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

D. Compensated Absences

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

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.

E. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is displayed in three components:

*Net Investment in Capital Assets* – Consists of capital assets, net of accumulated depreciation, and reduced by any outstanding debt attributable to the acquisition of those assets.

*Restricted Net Position* – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

**KITCHIGAMI REGIONAL LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

E. Net Position (Continued)

*Unrestricted Net Position* – All other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

F. Fund Balance

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

*Nonspendable* – Amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

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

*Committed* – Amounts that can only be used for specific purposes determined by a formal action by the Board of Directors ordinance or resolution. It requires action by the same group to establish, modify, or rescind the commitments placed on the resources.

*Assigned* – Amounts that are constrained by the Library’s intent to be used for specific purposes, but are not restricted nor committed. Intent is expressed by the Library’s Board of Directors itself, a body (budget or finance committee) or an official (director) to which the Board of Directors has delegated the authority to assign amounts to be used for specific purposes. In Governmental Funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the governing body itself. There is no assigned fund balance at December 31, 2019.

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

G. Use of Restricted Resources

When a disbursement is incurred that can be paid using either restricted or unrestricted resources, the Library’s policy is to first apply the disbursement toward restricted fund balance/net position and then to other, less-restrictive classifications – committed and then assigned fund balance before using unassigned fund balance, in governmental funds.

**KITCHIGAMI REGIONAL LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

G. Use of Restricted Resources (Continued)

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

H. Pensions

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

I. 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 certain estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources; and disclosure of contingent assets and liabilities 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**

At December 31, 2019 there were no compliance issues to be noted.

**NOTE 3 DEPOSITS AND INVESTMENTS**

A. Deposits and Investments

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

**1. Deposits**

The Library 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 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 ten percent 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.

**KITCHIGAMI REGIONAL LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

A. Deposits and Investments (Continued)

**1. Deposits (Continued)**

Custodial Credit Risk

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

*Minnesota Statutes* require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance, bonds, or an irrevocable standby letter of credit issued by the Federal Home Loan Bank.

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

	Bank Balance	Carrying Amount
Deposit balances at December 31, 2019, are as follows:	\$ 5,978,602	\$ 5,979,971

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

	Pine River State Bank	Bremer Bank	Citizens National Bank
Bank Balance at December 31, 2019	\$ 5,457,360	\$ 81,371	\$ 439,871
Less: FDIC Insurance	(500,000)	(250,000)	(250,000)
Uninsured Balance	4,957,360	-	189,871
Required Collateral	5,453,096	-	208,858
Market Value of Collateral at December 31, 2019	5,820,532	-	-
Under Collateralized at December 31, 2019	\$ -	\$ -	\$ 208,858

**KITCHIGAMI REGIONAL LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

A. Deposits and Investments (Continued)

**1. Deposits (Continued)**

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

DESCRIPTION	December 31, 2018	Net Increase	Net Decrease	December 31, 2019
Checking	\$ 254,075	\$ 547,336	\$ -	\$ 801,411
Money Market, Savings, and Certificates of Deposit	5,366,222	-	187,662	5,178,560
Total	<u>\$ 5,620,297</u>	<u>\$ 547,336</u>	<u>\$ 187,662</u>	<u>\$ 5,979,971</u>

**2. Investments**

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

- securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, excluding mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, Subd.6;
- mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- bankers’ acceptances of United States banks;
- commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

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

Credit Risk

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

**KITCHIGAMI REGIONAL LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

A. Deposits and Investments (Continued)

**2. Investments (Continued)**

Custodial Credit Risk

The risk that, in the event of the failure of the counterparty to a transaction, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk

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

**Valuation of Library Investments**

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

The following table categorizes fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets and liabilities. Level 1 inputs are quoted prices for identical assets or liabilities in active markets at the date of measurement; Level 2 inputs are significant other directly or indirectly observable inputs other than quoted prices; and Level 3 inputs are significant unobservable inputs. The Library had the following fair value measurements as of December 31, 2019:

	<u>Level 3</u>
Minnesota Community Foundation (MCF)	<u>\$ 129,077</u>

Fair value measurement as of December 31, 2019, was related to its investment in a multi-asset endowment portfolio maintained by the Minnesota Community Foundation. This investment is valued using significant unobservable inputs of the underlying investments (Level 3 inputs).

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

B. Endowments

The Library is the sole beneficiary of a permanent endowment, held and managed by the Minnesota Community Foundation (Foundation). Payments to the Library are made at the discretion of the Foundation at such times and in such amounts that the Foundation deems appropriate.

**KITCHIGAMI REGIONAL LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 4 PREPAID EXPENSES**

Prepaid expenses consisted of the following as of December 31, 2019:

Insurance Premiums	\$ 19,235
Library Materials	22,334
	<u>41,569</u>
	<u>\$ 41,569</u>

**NOTE 5 CAPITAL ASSETS**

A summary of changes in Capital Assets is as follows:

	December 31, 2018	Increase	Decrease	December 31, 2019
<u>Assets Not Being Depreciated/Amortized</u>				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
<u>Assets Being Depreciated/Amortized</u>				
Buildings and Improvements	587,168	-	-	587,168
Vehicles	386,467	-	172,570	213,897
Furniture, Fixtures, and Equipment	336,059	-	8,834	327,225
Books and Materials (Collections)	454,205	42,761	-	496,966
Intangible Asset - Software	-	19,916	-	19,916
Total Capital Assets Being Depreciated/Amortized	<u>1,763,899</u>	<u>62,677</u>	<u>181,404</u>	<u>1,645,172</u>
Less Accumulated Depreciation/Amortization for:				
Buildings and Improvements	272,181	16,490	-	288,671
Vehicles	285,562	28,544	172,570	141,536
Furniture, Fixtures, and Equipment	304,062	7,650	8,834	302,878
Books and Materials (Collections)	247,523	18,830	-	266,353
Intangible Asset - Software	-	3,319	-	3,319
Total Accumulated Depreciation/ Amortization	<u>1,109,328</u>	<u>74,833</u>	<u>181,404</u>	<u>1,002,757</u>
Total Capital Assets Being Depreciated/Amortized, Net	<u>654,571</u>	<u>(12,156)</u>	<u>-</u>	<u>642,415</u>
Total Capital Assets, Net	<u>\$ 684,571</u>	<u>\$ (12,156)</u>	<u>\$ -</u>	<u>\$ 672,415</u>

Current year depreciation/amortization expense was allocated as follows:

	<u>Depreciation/ Amortization</u>
Buildings	\$ 16,490
Vehicles	28,544
Library Operations	26,480
Software	3,319
	<u>74,833</u>
Total	<u>\$ 74,833</u>

**KITCHIGAMI REGIONAL LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 6 LONG-TERM LIABILITIES**

Compensated Absences

The change in accrued compensated absences for the year ended December 31, 2019, was as follows:

Governmental Activities	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Other Liabilities:					
Accrued Compensated Absences	\$ 50,606	\$ -	\$ 2,944	\$ 47,662	\$ -

The General Fund will be used to liquidate this liability.

**NOTE 7 FUND BALANCES**

A. Nonspendable

Nonspendable balances include prepaid items of \$41,569 and an endowment held by the Minnesota Community Foundation of \$129,077.

B. Restricted

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

Branch	2018	2019				
	Balance	Interest	Capital	Revenue	Expense	Balance
Bemidji	\$ 45,556	\$ 330	\$ -	\$ 5,647	\$ 453	\$ 51,080
Blackduck	13,206	96	-	289	498	13,093
Brainerd	60,528	440	-	4,659	23	65,604
Cass Lake	8,406	61	-	245	-	8,712
KRL Headquarters	55,268	400	11,000	-	-	66,668
Longville	18,037	132	-	983	382	18,770
Park Rapids	21,783	157	-	3,601	-	25,541
Pine River	16,629	120	-	255	-	17,004
Wadena	29,405	213	-	1,374	1,024	29,968
Walker	13,628	98	-	406	-	14,132
Total	<u>\$ 282,446</u>	<u>\$ 2,047</u>	<u>\$ 11,000</u>	<u>\$ 17,459</u>	<u>\$ 2,380</u>	<u>310,572</u>
Less: Kitchigami Regional Library - Classified as Committed						66,668
Total Restricted Fund Balance						<u>\$ 243,904</u>

**KITCHIGAMI REGIONAL LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 7 FUND BALANCES (CONTINUED)**

C. Committed

Following is a schedule of committed funds at December 31, 2019:

Automation	\$ 406,917
Regional Library Telecommunications Aid	280,507
Library Building	166,773
Crow Wing County	162,332
Vehicle	130,221
Endowment - Minnesota Community Foundation	129,077
Sue Tricker Outreach	113,241
Health Insurance	70,269
Automation - Repair and Replacement - Headquarters	66,668
Outreach	56,465
Building Repair and Maintenance	40,968
Summer Reading	33,001
Loan Security	31,347
Software Accounting	25,682
Gates Grant	19,819
Headquarter's Gift	<u>277</u>
Total Committed Funds	<u><u>\$ 1,733,564</u></u>

**NOTE 8 DEFINED BENEFIT PENSION PLAN**

Public Employees Retirement Association (PERA)

**Plan Description**

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

- General Employees Retirement Plan – All full-time and certain part-time employees of the Library are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated plan members are covered by Social Security.

**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.

**KITCHIGAMI REGIONAL LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 8      DEFINED BENEFIT PENSION PLAN (CONTINUED)**

Public Employees Retirement Association (PERA) (Continued)

**Benefits Provided (Continued)**

*General Employees Plan Benefits* - Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated 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 Plan members is 1.2% of average salary for each of the first ten years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated Plan members is 1.7% of average salary 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.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. 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. For 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.

**Contributions**

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

*General Employees Fund Contributions* - Coordinated Plan members were required to contribute 6.5%, of their annual covered salary in calendar year 2019 and the Library was required to contribute 7.5% for Coordinated Plan members. The Library's contributions to the General Employees Fund for the years ended December 31, 2019, 2018, and 2017, were \$95,189, \$94,368, and \$90,514, respectively. The Library's contributions were equal to the required contributions as set by state statute.

**KITCHIGAMI REGIONAL LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 8      DEFINED BENEFIT PENSION PLAN (CONTINUED)**

Public Employees Retirement Association (PERA) (Continued)

**Pension Costs**

General Employees Fund Pension Costs - At December 31, 2019, the Library reported a liability of \$967,536 for its proportionate share of the General Employees Fund's net pension liability. The Library's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Library totaled \$30,165. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Library's proportionate share of the net pension liability was based on the Library's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the Library's proportionate share was 0.0175% which was a decrease of 0.0009% from its proportionate share measured as of June 30, 2018.

Library's proportionate share of net pension liability	\$ 967,536
State of Minnesota's proportionate share of the net pension liability associated with the Library	<u>30,165</u>
Total	<u><u>\$ 997,701</u></u>

For the year ended December 31, 2019, the Library recognized pension expense of \$85,471 for its proportionate share of the General Employees Plan's pension expense. In addition, the Library recognized an additional \$2,259 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

**KITCHIGAMI REGIONAL LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 8      DEFINED BENEFIT PENSION PLAN (CONTINUED)**

Public Employees Retirement Association (PERA) (Continued)

**Pension Costs (Continued)**

At December 31, 2019, the Library reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 27,414	\$ -
Changes in Actuarial Assumptions	74,322	78,936
Net Collective Difference between projected and actual investment earnings	61,083	163,095
Changes in Proportion	3,192	45,565
Contributions paid to PERA subsequent to the measurement date	48,985	-
Total	\$ 214,996	\$ 287,596

\$48,985 reported as deferred outflows of resources related to pensions resulting from Library contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	Pension Expense Amount
2020	\$ 2,296
2021	\$ (92,548)
2022	\$ (32,893)
2023	\$ 1,560

**Actuarial Assumptions**

The total pension liability in the June 30, 2019, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

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

**KITCHIGAMI REGIONAL LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 8      DEFINED BENEFIT PENSION PLAN (CONTINUED)**

Public Employees Retirement Association (PERA) (Continued)

**Actuarial Assumptions (Continued)**

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments to fix PERA's experience. 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, 2019, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions and plan provisions occurred in 2019:

**General Employees Fund**

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, decreasing 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.

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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic Equity	35.5%	5.10%
Private Markets	25.0%	5.90%
Fixed Income	20.0%	0.75%
International Equity	17.5%	5.90%
Cash Equivalents	2.0%	0.00%
Total	100.0%	

**KITCHIGAMI REGIONAL LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 8 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

Public Employees Retirement Association (PERA) (Continued)

**Discount Rate**

The discount rate used to measure the total pension liability in 2019 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Pension Liability Sensitivity**

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

<b>Sensitivity Analysis</b>			
Net Pension Liability at Different Discount Rates			
	1% Lower (6.5%)	Current Discount Rate (7.5%)	1% Higher (8.5%)
General Employees Fund	\$1,590,577	\$967,536	\$453,092

**Pension Plan Fiduciary Net Position**

Detailed information about the General Employee's Retirement Plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**NOTE 9 DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

	December 31,	
	Entity-Wide Statement of Net Position	Governmental Funds - Balance Sheet
Deferred Outflows of Resources Consisted of:		
The amounts shown in Note 8, the Library's proportionate share of the General Employees Plan	\$ 214,996	\$ -
Deferred Inflows of Resources Consisted of:		
The amounts shown in Note 8, the Library's proportionate share of the General Employees Plan	\$ 287,596	\$ -
Minnesota Legacy Grant Advance Allotment	80,246	80,246
Total	\$ 367,842	\$ 80,246

**KITCHIGAMI REGIONAL LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 10 OTHER NOTES**

A. Risk Management

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

**NOTE 11 CONTINGENCIES**

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

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

## **REQUIRED SUPPLEMENTARY INFORMATION**

**KITCHIGAMI REGIONAL LIBRARY  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
YEAR ENDED DECEMBER 31, 2019**

	BUDGET AMOUNTS - ORIGINAL AND FINAL	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
Beginning Budgetary Fund Balances - January 1	\$ 5,555,734	\$ 5,555,734	\$ -
<b>REVENUES</b>			
Intergovernmental			
State Aid	679,000	695,530	16,530
Local Aid	1,985,825	1,985,825	-
Interest, Dividends, and Investments	15,000	63,012	48,012
Sales	29,777	49,011	19,234
Automation	17,459	17,459	-
Donations, Refunds, and Miscellaneous	-	32,762	32,762
Total Revenues	<u>2,727,061</u>	<u>2,843,599</u>	<u>116,538</u>
Amounts Available for Appropriation	<u>8,282,795</u>	<u>8,399,333</u>	<u>116,538</u>
<b>EXPENDITURES</b>			
Salaries			
Branch Libraries	1,116,420	1,030,166	86,254
Regional	316,968	239,701	77,267
Outreach/Mobile Library	33,872	35,677	(1,805)
Employee Benefits	468,384	340,801	127,583
Library Operations	343,325	270,383	72,942
Building	23,200	18,626	4,574
Vehicle/Outreach	29,880	19,790	10,090
Library Materials	182,563	127,069	55,494
Branch Collections	301,987	342,327	(40,340)
Automation Repair & Replacement	28,959	1,950	27,009
Board	52,000	23,707	28,293
Miscellaneous	6,000	24,637	(18,637)
Associate Service	10,000	10,000	-
Total Expenditures	<u>2,913,558</u>	<u>2,484,834</u>	<u>428,724</u>
BUDGETARY FUND BALANCES - DECEMBER 31	<u>\$ 5,369,237</u>	<u>\$ 5,914,499</u>	<u>\$ 545,262</u>

**KITCHIGAMI REGIONAL LIBRARY  
BUDGETARY COMPARISON SCHEDULE - ARTS AND CULTURAL HERITAGE FUND  
YEAR ENDED DECEMBER 31, 2019**

	BUDGET AMOUNTS - ORIGINAL AND FINAL	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
Beginning Budgetary Fund Balances - January 1	\$ -	\$ -	\$ -
<b>REVENUES</b>			
Intergovernmental			
State Aid	106,787	106,758	(29)
Total Revenues	<u>106,787</u>	<u>106,758</u>	<u>(29)</u>
Amounts Available for Appropriation	<u>106,787</u>	<u>106,758</u>	<u>(29)</u>
<b>EXPENDITURES</b>			
Legacy Program	106,787	106,758	29
Total Expenditures	<u>106,787</u>	<u>106,758</u>	<u>29</u>
<b>BUDGETARY FUND BALANCES - DECEMBER 31</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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

Measurement Date *	Employer's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the Library (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the Library (a+b)	Employer's Covered- Employee Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll (a+b/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2019	0.1750%	\$ 967,536	\$ 30,165	\$ 997,701	\$ 1,400,653	71.23%	80.23%
6/30/2018	0.0184%	1,020,757	33,653	1,054,410	1,338,922	76.24%	79.53%
6/30/2017	0.0183%	1,168,260	14,672	1,182,932	1,177,307	99.23%	75.90%
6/30/2016	0.0187%	1,518,347	19,889	1,538,236	1,162,160	130.65%	68.90%
6/30/2015	0.0202%	1,046,869	-	1,046,869	1,164,880	89.87%	78.20%

\* This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

The notes to the required supplementary information are an integral part of this schedule.

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

Year Ending *	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered- Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (b/d)
12/31/2019	\$ 95,189	\$ 95,189	\$ -	\$ 1,269,187	7.5%
12/31/2018	94,368	94,368	-	1,258,240	7.5%
12/31/2017	90,514	90,514	-	1,206,853	7.5%
12/31/2016	87,432	87,432	-	1,165,760	7.5%
12/31/2015	86,690	86,690	-	1,155,867	7.5%

\* This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**KITCHIGAMI REGIONAL LIBRARY**  
**NOTES TO THE SCHEDULE OF CHANGES IN NET PENSION LIABILITIES AND RELATED RATIOS**  
**DECEMBER 31, 2019**

**General Employees Fund**

**2019 Changes**

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, decreasing 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**

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.5 percent per year thereafter to 1.25 percent 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 June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, 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**

Changes in Actuarial Assumptions

- The Combined Service Annuity (CSA) loans were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.
- The State'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 Employee 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.

## **SUPPLEMENTARY INFORMATION**

**KITCHIGAMI REGIONAL LIBRARY  
 DETAILED REVENUE AND EXPENSE SCHEDULE - ENTITY-WIDE  
 YEAR ENDED DECEMBER 31, 2019  
 (WITH COMPARATIVE ACTUAL AMOUNTS YEAR ENDED DECEMBER 31, 2018)**

	<u>2019</u>	<u>2018</u>
<b>INTERGOVERNMENTAL AND LOCAL REVENUE</b>		
State		
State Aid	\$ 697,789	\$ 696,306
Special/Grants	106,758	93,871
Total State	<u>804,547</u>	<u>790,177</u>
County		
Beltrami	392,896	383,313
Cass	373,709	367,285
Crow Wing	509,127	509,127
Hubbard	208,000	208,000
Wadena	97,737	95,533
Total County	<u>1,581,469</u>	<u>1,563,258</u>
City		
Bemidji	139,670	136,264
Blackduck	15,860	15,437
Brainerd	85,047	83,047
Cass Lake	8,155	8,155
Longville	9,012	9,012
Park Rapids	50,873	49,632
Pine River	12,848	12,848
Wadena	68,180	67,583
Walker	14,711	14,711
Total City	<u>404,356</u>	<u>396,689</u>
Total Intergovernmental and Local Revenue	<u>2,790,372</u>	<u>2,750,124</u>
<b>OTHER REVENUE</b>		
Interest on Savings and CD's	45,076	28,222
Endowment Investment Income and Gains	17,936	2,148
Automation	17,459	17,459
Sales		
Copies and Faxes	14,794	15,403
Miscellaneous Gifts and Other	66,979	113,946
Total Other Revenue	<u>162,244</u>	<u>177,178</u>
Total Revenues	<u>\$ 2,952,616</u>	<u>\$ 2,927,302</u>

**KITCHIGAMI REGIONAL LIBRARY  
 DETAILED REVENUE AND EXPENSE SCHEDULE - ENTITY-WIDE  
 YEAR ENDED DECEMBER 31, 2019  
 (WITH COMPARATIVE ACTUAL AMOUNTS YEAR ENDED DECEMBER 31, 2018)  
 (CONTINUED)**

	2019	2018
<b>EXPENSES</b>		
Library Materials		
Branch Collections	\$ 279,650	\$ 192,527
E-Materials	88,194	97,023
Periodicals and Papers	19,007	15,041
Shared Databases	19,868	17,391
Total Library Materials	406,719	321,982
Library Operations		
Automation Operating Costs	78,706	75,805
Communications/Dataline/Fax	64,200	68,536
Postage	5,313	5,520
Library Supplies	11,698	15,924
Office Supplies	12,409	10,599
Shared Processing Cost	19,418	19,785
Interlibrary Service Maintenance	41,442	42,651
Winter Reading Program	8,270	3,699
Other	-	324
Total Library Operations	241,456	242,843
Vehicle		
Delivery Van/Staff Van/Mobile Library Gas and Oil	13,924	14,272
Delivery Van/Staff Van/Mobile Library Repairs	1,032	4,234
Vehicles/Mobile Library Insurance	4,834	5,296
Total Vehicle	19,790	23,802
Building		
Insurance - Contents and Liability	6,139	5,802
Repairs and Maintenance	5,164	6,396
Electric	4,184	4,951
Gas	1,411	1,440
Sanitation/Disposal	882	848
Sewer	504	508
Water	342	344
Total Building	18,626	20,289
Board		
Meetings	5,050	3,023
Professional Fees and Dues/Special Projects	16,003	25,644
Insurance	2,654	2,625
Total Board	23,707	31,292
Legacy Program Expenses	106,758	93,871

**KITCHIGAMI REGIONAL LIBRARY  
 DETAILED REVENUE AND EXPENSE SCHEDULE - ENTITY-WIDE  
 YEAR ENDED DECEMBER 31, 2019  
 (WITH COMPARATIVE ACTUAL AMOUNTS YEAR ENDED DECEMBER 31, 2018)  
 (CONTINUED)**

	2019	2018
<b>EXPENSES (CONTINUED)</b>		
Branch Salaries		
Bemidji	262,916	247,805
Blackduck	39,102	37,167
Brainerd	311,585	329,335
Cass Lake	32,384	29,604
Longville	38,360	35,518
Park Rapids	139,725	130,630
Pine River	61,833	65,872
Wadena	78,352	73,601
Walker	65,909	60,583
Total Branch Salaries	1,030,166	1,010,115
Regional Salaries		
System Support	136,262	173,022
Technical Services	46,233	42,898
Interlibrary Loan	29,612	27,082
Mobile Library Salaries	35,677	35,904
Delivery	27,594	25,353
Total Regional Salaries	275,378	304,259
Employee Benefits		
FICA	107,150	104,166
Health Benefits	153,328	153,571
PERA	63,312	44,463
Workers' Compensation	6,789	11,301
Staff Development/Conferences/Other	10,222	128
Unemployment	-	10
Total Employee Benefits	340,801	313,639
Miscellaneous		
Meetings	1,985	6,275
Travel	59	393
Investment Fees/Admin	1,681	1,639
Recruiting	20,940	6,806
Associate Service	10,000	10,000
Investment Loss	-	7,496
Other	(28)	19,528
Total Miscellaneous	34,637	52,137
Depreciation/Amortization		
Books and Materials	18,830	12,835
Buildings and Equipment	52,684	54,548
Software	3,319	-
Total Depreciation	74,833	67,383
 Total Expenses	 \$ 2,572,871	 \$ 2,481,612

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

	2019	2018	2017	2016	2015
<b>Cash Reconciliation</b>					
Beginning Cash (Deficit)	\$ 79,231	\$ 66,245	\$ 22,181	\$ 45,970	\$ (8,365)
Cash Receipts	107,831	106,799	99,047	45,640	166,689
Cash Expenditures	(106,816)	(93,813)	(54,983)	(69,429)	(112,354)
Ending Cash (Deficit)	<u>\$ 80,246</u>	<u>\$ 79,231</u>	<u>\$ 66,245</u>	<u>\$ 22,181</u>	<u>\$ 45,970</u>
<b>Governmental Funds Reconciliation</b>					
Cash Receipts	\$ 107,831	\$ 106,799	\$ 99,047	\$ 45,640	\$ 166,689
Prior Year Grant Receivable	-	-	-	-	(57,455)
Prior Year Deferred Revenue	79,173	66,245	22,181	45,970	48,796
Deferred Revenue	(80,246)	(79,173)	(66,245)	(22,181)	(45,970)
Revenue	<u>106,758</u>	<u>93,871</u>	<u>54,983</u>	<u>69,429</u>	<u>112,060</u>
Cash Expenditures	106,816	93,813	54,983	69,429	112,354
Prior Year Accounts Payable	(58)	-	-	-	(294)
Accounts Payable	-	58	-	-	-
Governmental Funds Expense	<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>				
Governmental Funds Fund Balance	<u>\$ -</u>				
<b>Entity-Wide Reconciliation</b>					
Capital Assets Purchased	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation	-	-	-	199	400
Entity-Wide Expense	<u>106,758</u>	<u>93,871</u>	<u>54,983</u>	<u>69,628</u>	<u>112,460</u>
Entity-Wide (Decrease)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (199)</u>	<u>\$ (400)</u>
Net Position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 199</u>

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

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

## **COMPLIANCE REPORT SECTION**



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## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS AND MINNESOTA LEGAL COMPLIANCE**

Board of Directors  
Kitchigami Regional Library  
Pine River, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Kitchigami Regional Library, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements and have issued our report thereon dated August 4, 2020.

### **Internal Control Over Financial Reporting**

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

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 Recommendations, we did identify certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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 deficiency described in the accompanying Schedule of Findings and Recommendations, as item 2019-001, to be a material weakness.

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 Recommendations as items 2019-002 and 2019-003, to be significant deficiencies.

## **Compliance and Other Matters**

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

## **Minnesota Legal Compliance**

In connection with our audit, nothing came to our attention that caused us to believe that the Library failed to comply with the provisions of the contracting and bidding, deposits and investments, 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, except as described in the Schedule of Findings and Recommendation as item 2019-004. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Library's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

## **Library's Response to Findings**

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

## **Purpose of this Report**

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

*Clasen Stegner & Schiessl CPAs, Ltd.*  
Clasen Stegner & Schiessl CPAs, Ltd.  
Consultants & Accountants

Pequot Lakes, Minnesota  
August 4, 2020

**KITCHIGAMI REGIONAL LIBRARY  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
YEAR ENDED DECEMBER 31, 2019**

**CURRENT YEAR FINDINGS**

Material Weakness

**2019-001 Internal Control/Segregation of Duties**

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

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

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

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

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

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

- ◆ Claims approval is an important control and should be at the front of the meeting to ensure that the Board of Directors reviews the claims closely. Checks from months that meetings are not held need to be approved in the subsequent meeting.
- ◆ A thorough review of budget versus actual reporting and narrative at least quarterly.
- ◆ Monitor progress over the development of documented policies and procedures.
- ◆ The check sequence should be reported in each set of approved minutes. The Board of Directors should review the order of checks approved to ensure that they move in sequence and any gaps in the numbers are explained.
- ◆ Consider personnel policies that require someone else to fill finance duties for a period of time. A mandatory vacation period of one week for all finance staff and distribution of their duties for that week is often recommended.

*Management Response:* The executive director approves all invoices and the Board Chairman and Treasurer review the check register for each check run by check sequence. The full Board of Directors reviews the check register for all checks written since the prior meeting. A summary statement compares the actual expenses and revenues to the budgeted expenses and revenues. This process is incorporated in the approval of the consent agenda.

**KITCHIGAMI REGIONAL LIBRARY  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
YEAR ENDED DECEMBER 31, 2019  
(CONTINUED)**

**CURRENT YEAR FINDINGS (CONTINUED)**

Significant Deficiencies

**2019-002 Internal Control/Pre-signed Checks**

<i>Condition:</i>	The Library uses check stock that comes pre-signed from the vendor using printed images of authorized signatures on both signature lines.
<i>Criteria:</i>	Internal controls should be in place that provides reasonable assurance that all disbursement checks receive proper approval prior to their issuance.
<i>Cause:</i>	Checks come pre-signed with authorized signatures on both signature lines.
<i>Effect:</i>	Because of the nature of pre-signed (printed) checks, checks may be written without the knowledge or approval of management even though policies are in place to prevent such a situation.
<i>Recommendation:</i>	While we recognize the difficulty the Library faces in getting timely authorized signatures on its checks, we recommend that the Library discontinue the use of pre-signed checks.
<i>Management Response:</i>	The Board of Directors understands the finding and will evaluate implementing the recommended procedure.

**2019-003 Preparation of Financial Statements and Related Footnotes**

<i>Condition:</i>	The Library does not have an internal control system designed to provide for the preparation of the financial statements being audited. The auditors were requested to, and did, draft the Library's financial statements and accompanying notes to the financial statements.
<i>Criteria:</i>	A good system of internal control contemplates the preparation of financial statements including the relevant footnote disclosures.
<i>Cause:</i>	The Library does not have an internal control system designed to provide for the preparation of the financial statements being audited.
<i>Effect:</i>	The financial disclosures in the financial statements could be incomplete.
<i>Recommendation:</i>	This circumstance is not unusual in a governmental entity of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.
<i>Management Response:</i>	The Library agrees with this finding. However, given expected continuing budget constraints on staffing, the Library cannot commit that they will be able to prepare financial statements internally in future years, but will continue to provide training and take other steps to increase the Library's direct involvement in annual financial statement preparation.

**KITCHIGAMI REGIONAL LIBRARY  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
YEAR ENDED DECEMBER 31, 2019  
(CONTINUED)**

**CURRENT YEAR FINDINGS (CONTINUED)**

Minnesota Legal Compliance

**2019-004 Deposits and Investments**

<i>Condition:</i>	The Library lacked sufficient collateral to cover its uninsured deposits on December 31, 2019.
<i>Criteria:</i>	Government entities are required to obtain collateral which, when computed at market value, shall be at least ten percent more than the amount of any deposits in excess of FDIC insurance at the close of each banking day.
<i>Cause:</i>	There are no procedures in place to ensure that excess deposits are covered by sufficient collateral.
<i>Effect:</i>	Because of the failure to monitor excess deposits, the Library is exposed to the risk that it will be unable to recover its excess deposits in the event of a bank failure.
<i>Recommendation:</i>	We recommend that the Library put procedures in place to monitor its excess deposits on a daily basis to ensure it maintains sufficient collateral.
<i>Management Response:</i>	The Board of Directors agrees with the finding and has implemented the recommended procedure.

**KITCHIGAMI REGIONAL LIBRARY  
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS  
DECEMBER 31, 2019**

**STATUS OF PRIOR AUDIT FINDINGS**

The prior audit contained three findings:

Material Weakness

2018-001 Segregation of Duties

<i>Condition:</i>	During our audit we reviewed procedures over transaction cycles related to cash disbursements, billing, and payroll and found the Library to have limited segregation of duties.
<i>Current Status:</i>	This condition is noted again in the current year audit of the financial statements.

Significant Deficiency

2018-002 Internal Control/Presigned Checks

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

Minnesota Legal Compliance

2018-003 Public Purpose Expenditures

<i>Condition:</i>	The Library purchased snacks for meetings.
<i>Current Status:</i>	This condition is not noted in the current year audit of the financial statements.