

KITCHIGAMI REGIONAL LIBRARY SYSTEM

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2021

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
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DECEMBER 31, 2021**

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of Directors
Kitchigami Regional Library System
Pine River, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Kitchigami Regional Library System (the Library System), Pine River, Minnesota, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Library System's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Library System as of December 31, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Library System and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter Regarding Restatement of Prior Period

As discussed in Note 7, the Library System did not report all of its capital assets as of December 31, 2020. The error was corrected through beginning net position. Our auditors' opinion was not modified with respect to this misstatement.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Library System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Library System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Library System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library System's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 GAAS. In our opinion, the supplementary information listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the other information section listed in the table of contents, but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Board of Directors
Kitchigami Regional Library System

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2022, on our consideration of the Library System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Library System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Library System's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Brainerd, Minnesota
September 8, 2022

REQUIRED SUPPLEMENTARY INFORMATION

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2021**

This section of Kitchigami Regional Library System's (the Library System) annual financial report presents our discussion and analysis of the Library System's financial performance during the year ended on December 31, 2021.

FINANCIAL HIGHLIGHTS

Key financial highlights for the year ended December 31, 2021 include the following:

- Overall revenues in the statement of activities were \$3,090,210 and expenses were \$2,968,014.
- As of the close of the current fiscal year, the governmental activities combined net position was \$6,062,840, an increase of \$122,196 from the prior year after accounting for the restatement. \$752,511 of this amount is the net investment in capital assets, and \$403,978 is restricted to specific purposes.
- The General Fund's fund balance decreased \$40,662 from 2021 activity.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Entity-Wide Statements

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

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

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

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2021**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Entity-Wide Statements (Continued)

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

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

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.
- The Library System establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The Library System has one kind of fund:

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

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2021**

FINANCIAL ANALYSIS OF THE LIBRARY SYSTEM AS A WHOLE

Net Position

The Library System's combined net position was \$6,062,840 on December 31, 2021. There was an overall increase of \$122,196 from the prior year after accounting for the restatement.

**Table A-1
Net Position**

	Governmental Activities		Change
	2021	2020	
Current and Other Assets	\$ 6,699,452	\$ 6,563,394	2.07 %
Capital and Noncurrent Assets	755,871	624,031	21.13
Total Assets	7,455,323	7,187,425	3.73
Deferred Outflows of Resources	570,035	92,030	519.40
Current Liabilities	383,874	263,029	45.94
Long-Term Liabilities	842,711	1,132,806	(25.61)
Total Liabilities	1,226,585	1,395,835	(12.13)
Deferred Inflows of Resources	735,933	71,605	927.77
Net Position:			
Net Investment in Capital Assets	752,511	619,711	21.43
Restricted	403,978	385,175	4.88
Unrestricted	4,906,351	4,807,129	2.06
Total Net Position	\$ 6,062,840	\$ 5,812,015	4.32

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2021**

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

Changes in Net Position

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

The total net position of the Library System increased \$121,196. The increase is mainly due to expenditures under budgeted amounts and higher than budgeted intergovernmental revenues.

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

	Governmental Activities for the fiscal year ended December 31,		Total % Change
	2021	2020	
REVENUES			
Program Revenues:			
Charges for Services	\$ 41,284	\$ 17,649	133.92 %
Regional Library Basic System Support Grant	667,061	667,385	(0.05)
Regional Library Telecommunications Aid Grant	41,675	41,030	1.57
Legacy Grant	72,752	69,461	4.74
Other Grants and Contributions	263,529	104,836	151.37
General Revenues:			
Allotments from Participating Governments	1,960,628	2,034,507	(3.63)
Investment Earnings	43,281	45,374	(4.61)
Other	-	40,018	(100.00)
Total Revenues	3,090,210	3,020,260	2.32
EXPENSES			
Library Operations	2,463,225	2,146,315	14.77
Building	22,267	72,556	(69.31)
Vehicle	24,632	22,668	8.66
Branch Collections	240,873	257,384	(6.41)
Library Materials	79,962	147,882	(45.93)
Legacy Programs	72,752	69,461	4.74
Board	54,303	28,757	88.83
Associate Service	10,000	10,000	-
Total Expenses	2,968,014	2,755,023	7.73
CHANGE IN NET POSITION	122,196	265,237	
Net Position - Beginning of Year	5,812,015	5,546,778	
Restatement	128,629	-	
Net Position - Beginning of Year, as Restated	5,940,644	5,546,778	
NET POSITION - END OF YEAR	\$ 6,062,840	\$ 5,812,015	

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2021**

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

The cost of all governmental activities this year was \$2,960,058.

- Some of the cost was paid by the users of the Library System's programs \$41,284.
- The state and local governments subsidized certain programs with grants and contribution \$1,045,017.
- Most of the Library System's costs, however, were paid for by Library System taxpayers and the taxpayers of our state.
- This portion of governmental activities was paid for with \$1,960,626 in property taxes, \$43,281 of investment earnings, and other general revenues.

Figure A-1 Sources of Library's Revenues for Fiscal 2021

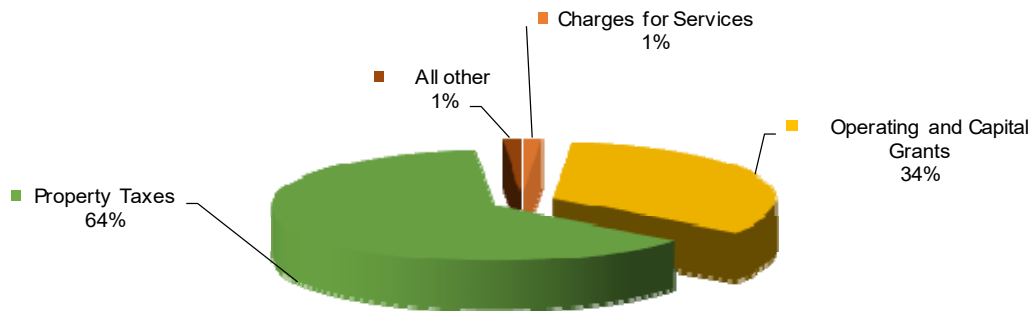
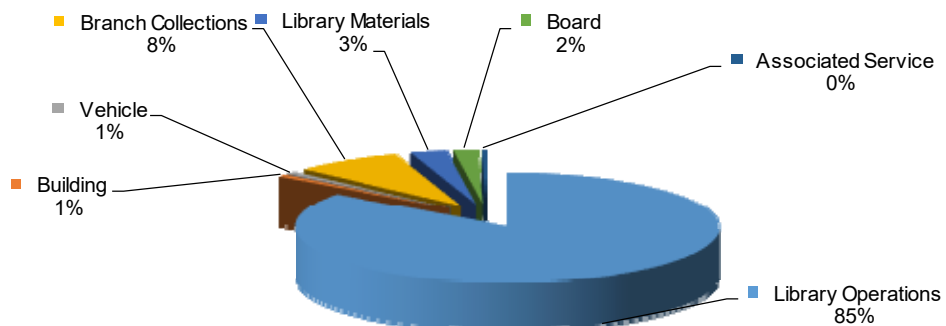


Figure A-2 Library Expenses for Fiscal 2021



**KITCHIGAMI REGIONAL LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2021**

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

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

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

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2021	2020		2021	2020	
Library Operations	\$ 2,463,225	\$ 2,146,315	14.77 %	\$ 1,449,676	\$ 1,315,415	10.21 %
Building	22,267	72,556	(69.31)	22,267	72,556	(69.31)
Vehicle	24,632	22,668	8.66	24,632	22,668	8.66
Branch Collections	240,873	257,384	(6.41)	240,873	257,384	(6.41)
Library Materials	79,962	147,882	(45.93)	79,962	147,882	(45.93)
Legacy Programs	72,752	69,461	4.74	-	-	-
Board	54,303	28,757	88.83	54,303	28,757	88.83
Associate Service	10,000	10,000	-	10,000	10,000	-
Total	<u>\$ 2,968,014</u>	<u>\$ 2,755,023</u>	7.73	<u>\$ 1,881,713</u>	<u>\$ 1,854,662</u>	1.46

FINANCIAL ANALYSIS OF THE LIBRARY SYSTEM'S FUNDS

The financial performance of the Library System as a whole is reflected in its governmental funds as well. As the Library System completed the year, its governmental funds reported a combined fund balance of \$6,260,663. This is a decrease of \$40,662 .

Revenues for the Library System's governmental funds were \$3,034,333 while total expenditures were \$3,074,995. The associated decrease of \$40,662 resulted from expenditures being higher than revenues.

GENERAL FUND

The General Fund includes the primary operations of the Library System in providing services to citizens. The year-ending fund balance in the General Fund decreased by \$40,662 from 2020, primarily due to an increase in library operation costs.

ARTS AND CULTURAL HERITAGE FUND

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

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2021**

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

The following schedule presents a summary of General Fund revenues.

**Table A-4
General Fund Revenues**

	Year Ended		Change	
	December 31, 2021	December 31, 2020	Increase (Decrease)	Percent
Intergovernmental:				
Federal Sources	\$ 131,890	\$ 13,000	\$ 118,890	914.5
State Sources	790,514	753,084	37,430	5.0
Other Sources	1,915,306	2,034,507	(119,201)	(5.9)
Charges for Services	40,729	17,649	23,080	130.8
Investment Earnings	43,281	45,375	(2,094)	(4.6)
Miscellaneous and Other	39,861	47,166	(7,305)	(15.5)
Total General Fund Revenues	<u>\$ 2,961,581</u>	<u>\$ 2,910,781</u>	<u>\$ 50,800</u>	1.7

Total General Fund revenues increased by \$50,800 or 1.7% over the previous year. This increase was due primarily to increased in federal and state grants in 2021.

The following schedule presents a summary of General Fund expenditures.

**Table A-5
General Fund Expenditures**

	Year Ended		Change	
	December 31, 2021	December 31, 2020	Increase (Decrease)	Percent
Library Operations	\$ 2,471,294	\$ 2,048,689	\$ 422,605	20.6 %
Building	91,008	72,556	18,452	25.4
Vehicle	24,632	22,668	1,964	8.7
Branch Collections	270,084	280,363	(10,279)	(3.7)
Library Materials	79,962	147,882	(67,920)	(45.9)
Board	54,303	28,757	25,546	88.8
Associate Service	10,000	10,000	-	-
Capital Outlay	-	5,040	(5,040)	(100.0)
Debt Service:	960	720	240	(3.7)
Total Expenditures	<u>\$ 3,002,243</u>	<u>\$ 2,616,675</u>	<u>\$ 385,568</u>	14.7

Total General Fund expenditures increased \$385,568 or 14.7% from the previous year due primarily to increased library operation expenditures.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2021**

General Fund Budgetary Highlights

The General Fund revenues were \$262,438 higher than budget due to an increase in intergovernmental revenues and sales that were not budgeted for. Expenditures were under budget by \$218,404 during the current fiscal year due to lower than expected library operational and library material expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Through 2021, the Library System has invested \$749,673 (net of accumulated depreciation) in a broad range of capital assets. (More detailed information about capital assets can be found in Note 5 to the financial statements.) Total depreciation expense for the year was \$94,742.

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

	2021	Restated 2020	Percentage Change
Land	\$ 30,000	\$ 30,000	-
Buildings and Improvements	650,368	587,168	10.8
Vehicles	176,648	176,648	-
Furniture, Fixtures, and Equipment	337,806	332,265	1.7
Books and Materials (Collections)	761,483	732,272	4.0
Intangible Asset - Software	19,916	19,916	-
Less: Accumulated Depreciation	(1,220,350)	(1,125,608)	8.4
Total	<u>\$ 755,871</u>	<u>\$ 752,661</u>	0.4

Note: The 2020 capital asset balances are restated. More detailed information about the capital asset restatement can be found in Note 12 to the financial statements.

Long-Term Debt

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

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

	2021	2020	Percentage Change
Capital Lease Payable	\$ 3,360	\$ 4,320	(26.37)%
Net Pension Liability	785,762	1,067,191	(26.37)
Compensated Absences Payable	54,549	62,255	(12.38)
Total	<u>\$ 843,671</u>	<u>\$ 1,133,766</u>	(25.59)

During the current fiscal year, the Library System's long-term compensated absences decreased by \$7,706, and the net pension liability decreased by \$281,429. Capital lease payable decreased by \$960. (More detailed information about long-term liabilities can be found in Note 7 to the financial statements)

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2021**

FACTORS BEARING ON THE LIBRARY SYSTEM'S FUTURE

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

CONTACTING THE LIBRARY SYSTEM'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
STATEMENT OF NET POSITION
DECEMBER 31, 2021**

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 6,386,589
Restricted Investments	153,292
Accounts Receivable	57,238
Interest Receivable	1,165
Prepaid Items	101,168
Capital Assets	
Land and Construction in Progress	30,000
Other Capital Assets, Net of Depreciation	725,871
Total Assets	7,455,323
DEFERRED OUTFLOWS OF RESOURCES	
Pension Related	570,035
LIABILITIES	
Salaries and Payroll Deductions Payable	62,269
Accounts and Contracts Payable	166,179
Unearned Revenue	154,466
Long-Term Liabilities	
Current Portion Due Within One Year - Capital Leases	960
Compensated Absences	54,549
Capital Leases Payable	2,400
Net Pension Liability	785,762
Total Liabilities	1,226,585
DEFERRED INFLOWS OF RESOURCES	
Pension Related	735,933
NET POSITION	
Net Investment in Capital Assets	752,511
Restricted for	
Endowment - Minnesota Community Foundation	153,292
Library Branch Automation	250,686
Unrestricted	4,906,351
Total Net Position	\$ 6,062,840

See accompanying Notes to Financial Statements.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021**

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position Total
		Charges for Services	Operating Grants Contributions	Governmental Activities 2021
Governmental Activities				
Library Operations	\$ 2,463,225	\$ 41,284	\$ 972,265	\$ (1,449,676)
Building	22,267	-	-	(22,267)
Vehicle	24,632	-	-	(24,632)
Branch Collections	240,873	-	-	(240,873)
Library Materials	79,962	-	-	(79,962)
Legacy Programs	72,752	-	72,752	-
Board	54,303	-	-	(54,303)
Associate Service	10,000	-	-	(10,000)
Total Library	\$ 2,968,014	\$ 41,284	\$ 1,045,017	(1,881,713)
GENERAL REVENUES				
				1,960,628
				43,281
				2,003,909
CHANGE IN NET POSITION				
				122,196
				5,812,015
				128,629
				5,940,644
NET POSITION - END OF YEAR				
				\$ 6,062,840

See accompanying Notes to Financial Statements.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2021**

	Major Funds		Total
	General	Arts and Cultural Heritage	Governmental Funds 2021
ASSETS			
Cash and Cash Equivalents	\$ 6,232,123	\$ 154,466	\$ 6,386,589
Restricted Investments	153,292	-	153,292
Account Receivable	57,238	-	57,238
Interest Receivable	1,165	-	1,165
Prepaid Items	101,168	-	101,168
Total Assets	<u>\$ 6,544,986</u>	<u>\$ 154,466</u>	<u>\$ 6,699,452</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE			
LIABILITIES			
Salaries and Payroll Deductions Payable	\$ 62,269	\$ -	\$ 62,269
Accounts and Contracts Payable	166,179	-	166,179
Unearned Revenue	-	154,466	154,466
Total Liabilities	<u>228,448</u>	<u>154,466</u>	<u>382,914</u>
DEFERRED INFLOWS OF RESOURCES			
Other	<u>55,875</u>	<u>-</u>	<u>55,875</u>
FUND BALANCE			
Nonspendable:			
Prepaid Items	101,168	-	101,168
Restricted	403,978	-	403,978
Committed	1,309,349	-	1,309,349
Unassigned	4,446,168	-	4,446,168
Total Fund Balance	<u>6,260,663</u>	<u>-</u>	<u>6,260,663</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 6,544,986</u>	<u>\$ 154,466</u>	<u>\$ 6,699,452</u>

See accompanying Notes to Financial Statements.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2021**

Total Fund Balance for Governmental Funds \$ 6,260,663

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

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

Land	30,000
Buildings and Improvements, Net of Accumulated Depreciation	329,127
Vehicles, Net of Accumulated Depreciation	22,722
Equipment, Net of Accumulated Depreciation	18,087
Books and Materials, Net of Accumulated Depreciation	352,616
Intangible Assets, Net of Accumulated Amortization	3,319

Other long-term assets (deferred inflows of resources) are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.

Allotments from Governments	55,875
-----------------------------	--------

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

Net Pension Liability	(785,762)
Deferred Inflows of Resources - Pension Related	(735,933)
Deferred Outflows of Resources - Pension Related	570,035

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

Capital Leases Payable	(3,360)
Compensated Absences Payable	(54,549)

Total Net Position of Governmental Activities \$ 6,062,840

See accompanying Notes to Financial Statements.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2021**

	Major Funds		Total
	General	Arts and Cultural Heritage	Governmental Funds 2021
REVENUES			
Intergovernmental			
Federal Sources	\$ 131,890	\$ -	\$ 131,890
State Sources	790,514	72,752	863,266
Other Sources	1,915,306	-	1,915,306
Interest Earnings	43,281	-	43,281
Sales	40,729	-	40,729
Automation	16,881	-	16,881
Miscellaneous	22,980	-	22,980
Total Revenues	<u>2,961,581</u>	<u>72,752</u>	<u>3,034,333</u>
EXPENDITURES			
Current:			
Library Operations	2,471,294	-	2,471,294
Building	91,008	-	91,008
Vehicle	24,632	-	24,632
Branch Collections	270,084	-	270,084
Library Materials	79,962	-	79,962
Legacy Program	-	72,752	72,752
Board	54,303	-	54,303
Associate Service	10,000	-	10,000
Debt Service:			
Principal	960	-	960
Total Expenditures	<u>3,002,243</u>	<u>72,752</u>	<u>3,074,995</u>
NET CHANGE IN FUND BALANCES	(40,662)	-	(40,662)
Fund Balances - Beginning of Year	<u>6,301,325</u>	<u>-</u>	<u>6,301,325</u>
FUND BALANCES - END OF YEAR	<u>\$ 6,260,663</u>	<u>\$ -</u>	<u>\$ 6,260,663</u>

See accompanying Notes to Financial Statements.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021**

Net Change in Fund Balance-Total Governmental Funds	\$ (40,662)
Amounts reported for governmental activities in the statement of activities are different because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	55,875
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.	
Capital Outlays	97,952
Depreciation Expense	(94,742)
Pension expenditures on the governmental funds are measured by current year employer contributions. Pension expenses on the statement of activities are measured by the change in net pension liability and the related deferred inflows and outflows of resources.	95,107
Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net position.	
Principal Payments for Capital Leases	960
In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	7,706
Change in Net Position of Governmental Activities	<u>\$ 122,196</u>

See accompanying Notes to Financial Statements.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Kitchigami Regional Library System's (the Library System) financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for the year ended December 31, 2021. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the Library System are discussed below.

A. Financial Reporting Entity

The Library System, a Minnesota Municipal Corporation, is an autonomous governmental unit, created by contractual agreement with various authorities that provides library services in Beltrami, Cass, Crow Wing, Hubbard, and Wadena counties. Funding is obtained from these counties and various cities located within these counties as noted in the Detailed Revenue and Expense Schedule – Entity Wide – Intergovernmental and Local Revenue Section. Revenues are also received by grants in aid from the state of Minnesota.

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

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

B. Basic Financial Statement Presentation

1. Government-Wide Statements

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

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

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Presentation (Continued)

1. Government-Wide Statements (Continued)

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

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

2. Fund Financial Statements

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

The Library System reports the following major governmental funds:

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

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

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting

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

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

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

1. Cash and Cash Equivalents

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

2. Deposits and Investments

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

3. Receivables and Payables

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

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

4. Prepaid Items

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

5. Capital Assets

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

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

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

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

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

6. Deferred Outflows of Resources

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

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

7. Compensated Absences

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

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

8. Deferred Inflows of Resources

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

9. Unearned Revenue

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

10. Long-Term Obligations

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

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

10. Long-Term Obligations (Continued)

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

11. Pensions

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

12. Classification of Net Position

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

13. Fund Equity

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

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

13. Fund Equity (Continued)

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

It is the Library System's practice that the General Fund is to maintain a minimum unassigned fund balance of 30% of the current fiscal year's budgeted operating expenditures or a fund balance that is necessary to keep the Library System from borrowing funds.

14. Use of Estimates

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

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

A. Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget at the departmental level for the year ended December 31, 2021:

Fund	Function	Budget	Expenditures	Excess
General Fund	Current:			
	Building	\$ 40,200	\$ 91,008	\$ 50,808
	Board	42,130	54,303	12,173
	Debt Service:			
	Principal	-	960	960

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

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 3 DEPOSITS AND INVESTMENTS

A. Deposits

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

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

1. Deposits

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

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

Custodial Credit Risk

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

As of December 31, 2021, the Library System's deposits were covered by insurance or collateral.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

2. Investments

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

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

Interest Rate Risk

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

Credit Risk

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

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

2. Investments (Continued)

Custodial Credit Risk – Investments

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

Concentration of Credit Risk

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

The following table presents the Library System’s deposit and investment balances at December 31, 2021, and information relating to potential investment risks:

	<u>Credit Risk</u>		<u>Concentration Risk</u>	<u>Interest Rate Risk</u>	<u>Carrying (Fair) Value</u>
	<u>Credit Rating</u>	<u>Rating Agency</u>	<u>Over 5% of Portfolio</u>	<u>Maturity Date</u>	
Investment Pools/Mutual Funds:					
Minnesota Community Foundation (MCF)	N/R	N/A	100.0%	N/A	153,292
Deposits					6,385,187
Petty Cash					<u>1,402</u>
Total Deposits and Investments					<u>\$ 6,539,881</u>

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

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

2. Investments (Continued)

Fair Value Measure

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

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

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

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

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

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

The Minnesota Community Foundation investment is measured at amortized costs, therefore is not subject to levels. No other investments noted.

The Library System reports investments at amortized costs in accordance with authoritative guidance and per guidance provided by Minnesota Community Foundation.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

2. Investments (Continued)

Fair Value Measure (Continued)

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

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

NOTE 4 PREPAID ITEMS

Prepaid items consisted of the following as of December 31, 2021:

Insurance Premiums	23,944
Library Materials	77,224
Total	<u>\$ 101,168</u>

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2021 was as follows:

	Restated Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated/Amortized:				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
Capital Assets, Being Depreciated/Amortized:				
Buildings and Improvements	587,168	63,200	-	650,368
Vehicles	176,648	-	-	176,648
Furniture, Fixtures, and Equipment	332,265	5,541	-	337,806
Books and Materials (Collections)	732,272	29,211	-	761,483
Intangible Asset - Software	19,916	-	-	19,916
Total Capital Assets, Being Depreciated/Amortized	<u>1,848,269</u>	<u>97,952</u>	<u>-</u>	<u>1,946,221</u>
Accumulated Depreciation/Amortization for:				
Buildings and Improvements	305,022	16,219	-	321,241
Vehicles	129,107	24,819	-	153,926
Furniture, Fixtures, and Equipment	310,687	9,032	-	319,719
Books and Materials (Collections)	370,834	38,033	-	408,867
Intangible Asset - Software	9,958	6,639	-	16,597
Total Accumulated Depreciation/ Amortization	<u>1,125,608</u>	<u>94,742</u>	<u>-</u>	<u>1,220,350</u>
Total Capital Assets, Being Depreciated/Amortized, Net	<u>722,661</u>	<u>192,694</u>	<u>-</u>	<u>725,871</u>
Governmental Activities Capital Assets, Net	<u>\$ 752,661</u>	<u>\$ 192,694</u>	<u>\$ -</u>	<u>\$ 755,871</u>

Depreciation expense during the current year was allocated as follows:

Governmental Activities	
Buildings	\$ 16,219
Vehicles	24,819
Library Operations	47,065
Software	<u>6,639</u>
Total Depreciation/Amortization Expense, Governmental Activities	<u>\$ 94,742</u>

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 6 UNEARNED REVENUE

Unearned revenue in the governmental funds consisted of grants for the Legacy Program that are collected in advance of eligibility requirements being met. Total unearned revenues at December 31, 2021 totaled \$154,466 in the Arts and Cultural Heritage Fund.

NOTE 7 LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2021 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Capital Leases Payable	\$ 4,320	\$ -	\$ 960	\$ 3,360	\$ 960
Compensated Absences Payable	<u>62,255</u>	<u>60,474</u>	<u>68,180</u>	<u>54,549</u>	<u>-</u>
Total Governmental Activity Long-Term Liabilities	<u>\$ 66,575</u>	<u>\$ 60,474</u>	<u>\$ 69,140</u>	<u>\$ 57,909</u>	<u>\$ 960</u>

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

B. Capital Lease

The Library System has a lease agreement with Pitney Bowes for a mailing machine that was entered into in 2020. The lease period is for 63 months. The historical cost of these leases is \$5,040 with \$2,621 of related accumulated depreciation.

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2022	960
2023	960
2024	960
2025	480
Total Minimum Lease Payments	<u>\$ 3,360</u>

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 8 FUND BALANCES

A. Nonspendable

Nonspendable balances include prepaid items of \$101,168.

B. Restricted

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

Branch	2020	2021				
	Balance	Interest	Capital	Revenue	Expenditures	Balance
Bemidji	\$ 52,931	\$ 145	\$ -	\$ 5,647	\$ 5,415	\$ 53,308
Blackduck	13,458	37	-	350	838	13,007
Brainerd	70,644	193	-	4,659	3,223	72,273
Cass Lake	8,976	25	-	300	955	8,346
KRL Headquarters	65,408	180	-	-	65,588	-
Longville	19,862	54	-	289	1,485	18,720
Park Rapids	26,832	73	-	3,601	2,352	28,154
Pine River	15,632	43	-	255	1,636	14,294
Wadena	29,614	82	-	1,374	944	30,126
Walker	14,458	41	-	406	2,447	12,458
Total	<u>\$ 317,815</u>	<u>\$ 873</u>	<u>\$ -</u>	<u>\$ 16,881</u>	<u>\$ 84,883</u>	<u>\$ 250,686</u>
Plus: Endowment - Minnesota Community Foundation						153,292
Total Restricted Fund Balance						<u>\$ 403,978</u>

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 8 FUND BALANCES (CONTINUED)

C. Committed

Following is a schedule of committed funds at December 31, 2021:

Automation	\$ 413,127
Sue Tricker Outreach	204,383
Crow Wing County	163,482
Regional Library Telecommunications Aid	89,353
Library Building	93,204
Vehicle	133,086
Outreach	59,330
Building Repair and Maintenance	40,968
Summer Reading	35,019
Loan Security	31,427
Software Accounting	25,874
Gates Grant	19,819
Headquarter's Gift	277
Total Committed Funds	<u>\$ 1,309,349</u>

NOTE 9 PENSION PLANS

A. Plan Description

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

1. General Employees Retirement Plan (General Employees Plan)

Certain full time and part-time employees of the Library System are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 9 PENSION PLANS (CONTINUED)

B. Benefits Provided

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

1. General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 9 PENSION PLANS (CONTINUED)

C. Contributions

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

1. General Employees Plan Contributions

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2021 and the Library System was required to contribute 7.50% for Coordinated Plan members. The Library System's contributions to the General Employees Fund for the year ended December 31, 2021, were \$99,705. The Library System's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. General Employees Plan Pension Costs

At December 31, 2021, the Library System reported a liability of \$785,762 for its proportionate share of the General Employees Fund's net pension liability. The Library System's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a 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 System totaled \$23,917.

The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Library System's proportionate share of the net pension liability was based on the Library System's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020 through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. The Library System's proportionate share was 0.0184% at the end of the measurement period and 0.0178% for the beginning of the period.

Library System's Proportionate Share of Net Pension Liability	\$ 785,762
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the Library System	23,917
Total	\$ 809,679

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 9 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Plan Pension Costs (Continued)

For the year ended December 31, 2021, the Library System recognized pension expense of \$4,892 for its proportionate share of the General Employees Plan's pension expense. In addition, the Library System recognized \$1,930 pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2021, the Library System reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ 4,828	\$ 24,047
Changes in Actuarial Assumptions	479,770	17,382
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	680,503
Changes in Proportion	36,925	14,001
Library Contributions Subsequent to the Measurement Date	48,512	-
Total	<u>\$ 570,035</u>	<u>\$ 735,933</u>

The \$48,512 reported as deferred outflows of resources related to pensions resulting from Library System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Pension Expenses Amount</u>
2022	\$ (33,905)
2023	2,101
2024	3,003
2025	(185,609)

2. Total Pension Expense

The total pension expense for the General Employees Plan recognized by the Library system for the year ended December 31, 2021 was \$6,822.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 9 PENSION PLANS (CONTINUED)

E. Long-Term Expected Return on Investment

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33.5 %	5.10 %
International Equity	16.5	5.30
Fixed Income	25.0	0.75
Private Markets	25.0	5.90
Totals	<u>100.0 %</u>	

F. Actuarial Methods and Assumptions

The total pension liability in the June 30, 2021, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5%. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5% was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25% for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25% for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25% after one year of service to 3.0% after 29 years of service and 6.0% per year thereafter.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 9 PENSION PLANS (CONTINUED)

F. Actuarial Methods and Assumptions

The following changes in actuarial assumptions and plan provisions occurred in 2021:

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50% to 6.50%, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

G. Discount Rate

The discount rate used to measure the total pension liability in 2021 was 6.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. Pension Liability Sensitivity

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

Description	1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase in Discount Rate (7.5%)
Library's Proportionate Share of the General Employees Plan Net Pension Liability	\$ 1,602,554	\$ 785,762	\$ 115,535

I. Pension Plan Fiduciary Net Position

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

NOTE 10 RISK MANAGEMENT

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

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

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 11 COMMITMENTS AND CONTINGENCIES

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

NOTE 12 RESTATEMENT

Beginning governmental net position was restated to account for capital assets from 2013 to 2016. The restatement represents the full listing of capital asset from 2013 to 2016 net accumulated depreciation.

	Governmental Activity
Fund Balance, December 31, 2020, as Previously Reported	\$ 5,812,015
Restatement	<u>128,629</u>
Fund Balance, December 31, 2020, as Restated	<u><u>\$ 5,940,644</u></u>

OTHER REQUIRED SUPPLEMENTARY INFORMATION

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
YEAR ENDED DECEMBER 31, 2021**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Intergovernmental				
Federal Sources	\$ -	\$ -	\$ 131,890	\$ 131,890
State Sources	799,147	799,147	790,514	(8,633)
Other Sources	1,863,115	1,863,115	1,915,306	52,191
Interest Earnings	25,000	25,000	43,281	18,281
Sales	-	-	40,729	40,729
Automation	16,881	16,881	16,881	-
Miscellaneous	(5,000)	(5,000)	22,980	27,980
Total Revenues	<u>2,699,143</u>	<u>2,699,143</u>	<u>2,961,581</u>	<u>262,438</u>
EXPENDITURES				
Current:				
Library Operations	2,635,512	2,635,512	2,471,294	(164,218)
Building	40,200	40,200	91,008	50,808
Vehicle	33,980	33,980	24,632	(9,348)
Branch Collections	300,578	300,578	270,084	(30,494)
Library Materials	158,247	158,247	79,962	(78,285)
Board	42,130	42,130	54,303	12,173
Associate Service	10,000	10,000	10,000	-
Debt Service:				
Principal	-	-	960	960
Total Expenditures	<u>3,220,647</u>	<u>3,220,647</u>	<u>3,002,243</u>	<u>(218,404)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (521,504)</u>	<u>\$ (521,504)</u>	(40,662)	<u>\$ 480,842</u>
Fund Balance - Beginning of Year			<u>6,301,325</u>	
FUND BALANCE - END OF YEAR			<u>\$ 6,260,663</u>	

See accompanying Notes to Required Supplementary Information.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
BUDGETARY COMPARISON SCHEDULE – ARTS AND CULTURAL HERITAGE FUND
YEAR ENDED DECEMBER 31, 2021**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Intergovernmental				
State Sources	\$ 97,510	\$ 97,510	\$ 72,752	\$ (24,758)
EXPENDITURES				
Current:				
Legacy Program	97,510	97,510	72,752	(24,758)
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balance - Beginning of Year			-	
FUND BALANCE - END OF YEAR			<u>\$ -</u>	

See accompanying Notes to Required Supplementary Information.

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

	Measurement Date <u>June 30, 2021</u>	Measurement Date <u>June 30, 2020</u>	Measurement Date <u>June 30, 2019</u>	Measurement Date <u>June 30, 2018</u>	Measurement Date <u>June 30, 2017</u>	Measurement Date <u>June 30, 2016</u>	Measurement Date <u>June 30, 2015</u>
PERA - General Employees Fund							
System's Proportion of the Net Pension Liability	0.0184%	0.0178%	0.0175%	0.0184%	0.0183%	0.0187%	0.0202%
System's Proportionate Share of the Net Pension Liability	\$ 785,762	\$ 1,067,191	\$ 967,536	\$ 1,020,757	\$ 1,168,260	\$ 1,518,347	\$ 1,046,869
State of Minnesota's Proportionate Share of the Net Pension Liability	<u>23,917</u>	<u>33,000</u>	<u>30,165</u>	<u>33,653</u>	<u>14,672</u>	<u>19,889</u>	<u>-</u>
System's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability	809,679	1,100,191	997,701	1,054,410	1,182,932	1,538,236	1,046,869
System's Covered Payroll	1,321,507	1,315,318	1,400,653	1,338,922	1,177,307	1,162,160	1,164,880
System's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	59.46%	81.14%	69.08%	76.24%	99.23%	130.65%	89.87%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.00%	79.06%	80.20%	79.53%	75.90%	68.91%	78.20%

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

See accompanying Notes to Required Supplementary Information.

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

	2021	2020	2019	2018	2017	2016	2015
PERA - General Employees Fund							
Contractually Required Contribution	\$ 99,705	\$ 94,355	\$ 95,189	\$ 94,368	\$ 90,514	\$ 87,432	\$ 86,690
Contributions in Relation to the Contractually Required Contribution	(99,705)	(94,355)	(95,189)	(94,368)	(90,514)	(87,432)	(86,690)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
System's Covered Payroll	\$ 1,329,400	\$ 1,258,067	\$ 1,269,187	\$ 1,258,240	\$ 1,206,853	\$ 1,165,760	\$ 1,155,867
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%

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

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2021**

NOTE 1 LEGAL COMPLIANCE – BUDGETS

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

In the following funds, expenditures exceeded the appropriations during the year ended December 31, 2021:

Fund	Function	Budget	Expenditures	Excess
General Fund	Current:			
	Building	\$ 40,200	\$ 91,008	\$ 50,808
	Board	42,130	54,303	12,173
	Debt Service:			
	Principal	-	960	960

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

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

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

2021

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.50% to 6.50%, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2020

Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.

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

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

2020 (Continued)

Changes in Actuarial Assumptions (Continued):

- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions:

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

2019

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2018

Changes in Actuarial Assumption

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

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
YEAR ENDED DECEMBER 31, 2021**

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

2018 (Continued)

Changes in Plan Provisions

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after December 31, 2024.
- Interest credited on member contributions decreased from 4.00% to 3.00%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Postretirement benefit increases were changed from 1.00% per year with a provision to increase to 2.50% upon attainment of 90.00% funding ratio to 50.00% of the Social Security Cost of Living Adjustment, not less than 1.00% and not more than 1.50% beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

Changes in Actuarial Assumption

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

Changes in Plan Provisions

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

2016

Changes in Actuarial Assumptions

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

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
YEAR ENDED DECEMBER 31, 2021**

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

2016 (Continued)

Changes in Actuarial Plan Provisions

- There have been no changes since the prior valuation.

2015

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

SUPPLEMENTARY INFORMATION

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
 DETAILED REVENUE AND EXPENSE SCHEDULE – ENTITY WIDE
 YEAR ENDED DECEMBER 31, 2021**

INTERGOVERNMENTAL AND LOCAL REVENUE

Federal:	
Library Services and Technology Act - CARES Act	\$ 131,890
State:	
State Aid	790,514
Special/Grants	<u>72,752</u>
Total State	863,266
County:	
Beltrami	390,729
Cass	365,397
Crow Wing	509,127
Hubbard	212,605
Wadena	<u>96,227</u>
Total County	1,574,085
City:	
Bemidji	133,204
Blackduck	15,608
Brainerd	77,098
Cass Lake	7,896
Longville	9,402
Park Rapids	47,195
Pine River	12,881
Wadena	68,843
Walker	<u>14,414</u>
Total City	<u>386,541</u>
Total Intergovernmental and Local Revenue	2,955,782

OTHER REVENUE

Interest on Savings and CD's	16,235
Endowment Investment Income and Gains	27,046
Automation R&R City Funds	16,881
Sales:	
Copies and Faxes	41,284
Miscellaneous Gifts and Other	<u>32,982</u>
Total Other Revenue	<u>134,428</u>
Total Revenues	<u><u>\$ 3,090,210</u></u>

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
 DETAILED REVENUE AND EXPENSE SCHEDULE – ENTITY WIDE (CONTINUED)
 YEAR ENDED DECEMBER 31, 2021**

EXPENSES

Library Materials	
Branch Collections	\$ 240,873
E-Materials	55,093
Periodicals and Papers	16,379
Shared Databases	8,490
Total Library Materials	<u>320,835</u>
 Library Operations:	
Automation Operating Costs	197,359
Communications/Dataline/Fax	59,521
Postage	4,614
Library Supplies	19,230
Office Supplies	24,307
Shared Processing Cost	18,675
Interlibrary Service Maintenance	94,133
Winter Reading Program	4,920
Summer Reading Program	3,472
CARES Act Expense	85,845
Other	91,289
Total Library Operations	<u>603,365</u>
 Vehicle:	
Delivery Van/Staff Van/Mobile Library Gas and Oil	13,907
Delivery Van/Staff Van/Mobile Library Repairs	6,079
Vehicles/Mobile Library Insurance	4,646
Total Vehicle	<u>24,632</u>
 Building:	
Insurance - Contents and Liability	6,582
Repairs and Maintenance	7,878
Electric	5,056
Gas	1,009
Sanitation/Disposal	892
Sewer	504
Water	346
Total Building	<u>22,267</u>
 Board:	
Meetings	2,707
Professional Fees and Dues/Special Projects	48,286
Insurance	3,310
Total Board	<u>54,303</u>
 Legacy Program Expenses	72,752

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
 DETAILED REVENUE AND EXPENSE SCHEDULE – ENTITY WIDE (CONTINUED)
 YEAR ENDED DECEMBER 31, 2021**

EXPENSES (CONTINUED)

Branch Salaries:	
Bemidji	\$ 274,253
Blackduck	39,865
Brainerd	317,706
Cass Lake	32,574
Longville	36,597
Park Rapids	140,803
Pine River	69,135
Wadena	85,398
Walker	58,191
Total Branch Salaries	<u>1,054,522</u>
Regional Salaries:	
System Support	208,736
Technical Services	46,963
Interlibrary Loan	26,196
Mobile Library Salaries	36,218
Delivery	22,578
Total Regional Salaries	<u>340,691</u>
Employee Benefits:	
FICA	110,183
Health Benefits	228,913
PERA	4,395
Workers' Compensation	7,408
Total Employee Benefits	<u>350,899</u>
Miscellaneous:	
Meetings	5,941
Training	3,839
Travel	424
Investment Fees/Admin	1,588
Recruiting	7,069
Associate Service	10,000
Other	145
Total Miscellaneous	<u>29,006</u>
Depreciation/Amortization:	
Books and Materials	47,065
Buildings and Equipment	41,038
Software	6,639
Total Depreciation/Amortization	<u>94,742</u>
 Total Expenses	 <u><u>\$ 2,968,014</u></u>

**OTHER INFORMATION
(UNAUDITED)**

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
SCHEDULE OF MINNESOTA LEGACY GRANT FUNDING
YEAR ENDED DECEMBER 31, 2021**

	2021	2020	2019	2018	2017	2016	2015
Cash Reconciliation							
Beginning Cash (Deficit)	\$ 111,981	\$ 80,246	\$ 79,231	\$ 66,245	\$ 22,181	\$ 45,970	\$ (8,365)
Cash Receipts	115,237	101,196	107,831	106,799	99,047	45,640	166,689
Cash Expenditures	<u>(72,752)</u>	<u>(69,461)</u>	<u>(106,816)</u>	<u>(93,813)</u>	<u>(54,983)</u>	<u>(69,429)</u>	<u>(112,354)</u>
Ending Cash (Deficit)	<u>\$ 154,466</u>	<u>\$ 111,981</u>	<u>\$ 80,246</u>	<u>\$ 79,231</u>	<u>\$ 66,245</u>	<u>\$ 22,181</u>	<u>\$ 45,970</u>
Governmental Funds Reconciliation							
Cash Receipts	\$ 115,237	\$ 101,196	\$ 107,831	\$ 106,799	\$ 99,047	\$ 45,640	\$ 166,689
Prior Year Grant Receivable	-	-	-	-	-	-	(57,455)
Prior Year Deferred Revenue	111,981	80,246	79,173	66,245	22,181	45,970	48,796
Deferred Revenue	<u>(154,466)</u>	<u>(111,981)</u>	<u>(80,246)</u>	<u>(79,173)</u>	<u>(66,245)</u>	<u>(22,181)</u>	<u>(45,970)</u>
Revenue	<u>72,752</u>	<u>69,461</u>	<u>106,758</u>	<u>93,871</u>	<u>54,983</u>	<u>69,429</u>	<u>112,060</u>
Cash Expenditures	72,752	69,461	106,816	93,813	54,983	69,429	112,354
Prior Year Accounts Payable	-	-	(58)	-	-	-	(294)
Accounts Payable	-	-	-	58	-	-	-
Governmental Funds Expense	<u>72,752</u>	<u>69,461</u>	<u>106,758</u>	<u>93,871</u>	<u>54,983</u>	<u>69,429</u>	<u>112,060</u>
Governmental Funds Increase (Decrease)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Governmental Funds Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Entity-Wide Reconciliation							
Capital Assets Purchased	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation	-	-	-	-	-	199	400
Entity-Wide Expense	<u>72,752</u>	<u>69,461</u>	<u>106,758</u>	<u>93,871</u>	<u>54,983</u>	<u>69,429</u>	<u>112,060</u>
Entity-Wide (Decrease)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (199)</u>	<u>\$ (400)</u>
Net Position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 199</u>

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
SCHEDULE OF REGIONAL LIBRARY TELECOMMUNICATION AID – CASH BASIS
YEAR ENDED DECEMBER 31, 2021**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
REVENUE	\$ 41,675	\$ 41,030	\$ 39,884	\$ 39,882	\$ 40,991	\$ 40,217	\$ 6,844
EXPENDITURES							
Priority 1:							
Datalines	35,422	46,274	39,883	51,203	31,285	47,906	44,552
Telephone	14,834	15,209	15,853	-	18,195	17,046	24,387
Remote Access	630	615	441	312	208	312	312
Internet Access	2,457	8,885	-	-	-	-	-
Priority 2:							
Internal Connections	<u>2,758</u>	<u>4,998</u>	<u>1,119</u>	<u>36,713</u>	<u>5,100</u>	<u>1,913</u>	<u>14,836</u>
Total Expenditures	<u>56,101</u>	<u>75,981</u>	<u>57,296</u>	<u>88,228</u>	<u>54,788</u>	<u>67,177</u>	<u>84,087</u>
REVENUES (UNDER) EXPENDITURES	<u>\$ (14,426)</u>	<u>\$ (34,951)</u>	<u>\$ (17,412)</u>	<u>\$ (48,346)</u>	<u>\$ (13,797)</u>	<u>\$ (26,960)</u>	<u>\$ (77,243)</u>

OTHER REQUIRED REPORTS



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

Board of Directors
Kitchigami Regional Library System
Pine River, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Kitchigami Regional Library System (the Library System), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Library System's basic financial statements, and have issued our report thereon dated September 8, 2022.

Reporting on Internal Control Over Financial Reporting

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

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

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2020-004 to be a significant deficiency.

Report on Compliance and Other Matters

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

The Library System's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the The Library System's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Library System's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

CliftonLarsonAllen LLP

Brainerd, Minnesota
September 8, 2022



INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Directors
Kitchigami Regional Library System
Pine River, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund information of Kitchigami Regional Library System (the Library System) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Library System's financial statements as listed in the table of contents and have issued our report thereon dated September 8, 2022.

In connection with our audit, nothing came to our attention that caused us to believe that the Library System failed to comply with provisions of the contracting – bid laws, depositories of public funds and public 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. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Library System's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

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

CliftonLarsonAllen LLP

Brainerd, Minnesota
September 8, 2022

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2021**

MATERIAL WEAKNESSES (FINANCIAL REPORTING):

Finding: 2021-001	Financial Reporting Process
Condition:	As part of the audit, management requested us to prepare a draft of the financial statements, including the related notes to the financial statements.
Criteria:	Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial statements including the related disclosures, in conformity with GAAP.
Effect:	The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the Library System's internal controls.
Cause:	The Library System's management have not monitored recent accounting developments to the extent necessary to enable them to prepare the financial statements and related disclosures, to provide a high level of assurance that potential omissions or other errors that are material would be identified.
Repeat Finding:	Yes, 2020-001.
Recommendation:	Management should continue to evaluate their internal staff capacity to determine if an internal control policy over the annual financial reporting is beneficial.
Views of Responsible Officials:	There is no disagreement with the audit finding. The Library System will continue to rely upon the audit firm to prepare the financial statements and related footnote disclosures and will review and approve these prior to the issuance of the annual financial statements.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2021**

MATERIAL WEAKNESSES (FINANCIAL REPORTING) (CONTINUED):

Finding: 2021-002	Limited Segregation of Duties
Condition:	Due to the limited size of the Library System's business office staff, the Library System has limited segregation of duties. Currently procedures over transaction cycles related to cash disbursements, billing, and payroll at the Library System has limited segregation of duties.
Criteria:	Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.
Effect:	Inadequate segregation of duties could adversely affect the Library System's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.
Cause:	There is a limited number of staff in the business office.
Repeat Finding:	Yes, 2020-002.
Recommendation:	We recommend that the Library System continue to segregate duties as best it can within the limits of what the Library System considers to be cost beneficial.
Views of Responsible Officials:	There is no disagreement with the audit finding. The Library System reviews and makes improvements to its internal controls on an ongoing basis, and attempts to maximize the segregation of duties in all areas within the limits of the staff available.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2021**

MATERIAL WEAKNESSES (FINANCIAL REPORTING) (CONTINUED):

Finding: 2021-003	Audit Adjustments
Condition:	As part of the audit, we proposed material adjustments related to recording payables and receivables in accordance with GAAP and related to recording prepaids balances.
Criteria:	Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair representation in the financial statements in accordance with U.S. generally accepted accounting principles. Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include adjusting the financial statement to correct material misstatements and produce accurate financial statements on a timely basis.
Effect:	Controls over year-end closing could affect the Library System's ability to detect or prevent errors.
Cause:	The Library System does not have enough office staff with enough time to record these adjustments.
Repeat Finding:	2020-003
Recommendation:	We recommend that Library System management and financial personnel continue to work on establishing a process to ensure the recording of all related transactions to properly adjust financial statements at year-end.
Views of Responsible Officials:	There is no disagreement with the audit finding. The Library System will create a process to ensure the proper and timely recording of all adjustments in order to produce accurate and timely financial statements.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2021**

SIGNIFICANT DEFICIENCY (FINANCIAL REPORTING):

Finding: 2021-004	Fund Balance Policy
Condition:	As part of the audit, we noted that the Library System did not have a Board approved Fund Balance policy.
Criteria:	Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Library System are described in Note 1 to the financial statements. There is no formal Fund Balance policy approved by the Board to guide management in keeping track of their fund balances throughout the year.
Effect:	Practices may not be followed as intended by management and personnel may not understand the purpose of internal controls.
Cause:	The Library System's Board of Directors has not yet passed a policy.
Repeat Finding:	2020-004
Recommendation:	We recommend that Library System management work with the Board of Directors to approve a Fund Balance policy as soon as possible.
Views of Responsible Officials:	There is no disagreement with the audit finding. The Library System's management will work with the board to develop a Fund Balance Policy.

**KITCHIGAMI REGIONAL LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2021**

PREVIOUSLY REPORTED ITEMS RESOLVED

2020-005 Deposits and Investments