

AUDIT REPORT

MCLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

For the Years Ended December 31, 2019 and 2018

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

MCLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

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For the Years Ended December 31, 2019 and 2018

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MCLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

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INDEPENDENT AUDITOR'S REPORT

Governing Board
McLean-Mercer Regional Library
Riverdale, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the McLean-Mercer Regional Library, Riverdale, North Dakota, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the McLean-Mercer Regional Library, Riverdale, North Dakota, as of December 31, 2019 and 2018, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgeting comparison information on pages 23 through 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2020 on our consideration of the library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the library's internal control over financial reporting and compliance.



Rath and Mehrer, P.C.

Bismarck, North Dakota

September 25, 2020

MCLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Statement of Net Position
December 31, 2019

	<u>Governmental Activities</u>
<u>ASSETS:</u>	
Cash	159,943.66
Taxes Receivable	7,526.92
Due from County Treasurer	97,229.29
Capital Assets (net of accumulated depreciation):	
Vehicles	<u>170,560.00</u>
Total Assets	<u>435,259.87</u>
<u>LIABILITIES:</u>	
Payroll Taxes Payable	<u>258.00</u>
<u>DEFERRED INFLOWS OF RESOURCES:</u>	
Unavailable Revenue	<u>96,500.99</u>
<u>NET POSITION:</u>	
Net Investment in Capital Assets	170,560.00
Unrestricted	<u>167,940.88</u>
Total Net Position	<u><u>338,500.88</u></u>

The accompanying notes are an integral part of these financial statements.

MCLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Statement of Net Position
December 31, 2018

	<u>Governmental Activities</u>
<u>ASSETS:</u>	
Cash	319,563.80
Taxes Receivable	7,281.20
Due from County Treasurer	65,009.94
Capital Assets (net of accumulated depreciation):	
Vehicles	<u>181,220.00</u>
Total Assets	<u>573,074.94</u>
<u>LIABILITIES:</u>	
Payroll Taxes Payable	<u>251.00</u>
<u>DEFERRED INFLOWS OF RESOURCES:</u>	
Unavailable Revenue	<u>63,938.42</u>
<u>NET POSITION:</u>	
Net Investment in Capital Assets	181,220.00
Unrestricted	<u>327,665.52</u>
Total Net Position	<u><u>508,885.52</u></u>

The accompanying notes are an integral part of these financial statements.

MCLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Statement of Activities
For the Year Ended December 31, 2019

	Program Revenues		Net (Expense)
	Expenses	Charges for Services	Operating Grants and Contributions
			Revenue and Changes in Net Position
			Governmental Activities
Governmental Activities:			
Culture and Recreation	462,042.90	2,700.00	580.00
			(458,762.90)
General Revenues:			
Taxes:			
Property taxes; levied for general purposes			234,119.06
Telecommunications tax			829.45
Homestead tax credit			2,111.44
Disabled veterans tax credit			456.14
State aid - not restricted to specific program			46,714.85
Earnings on investments and other revenue			4,147.32
Total General Revenues			288,378.26
Change in Net Position			(170,384.64)
Net Position - January 1			508,885.52
Net Position - December 31			338,500.88

The accompanying notes are an integral part of these financial statements.

MCLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Statement of Activities
For the Year Ended December 31, 2018

	Program Revenues		Net (Expense)
Expenses	Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
			Governmental Activities
Governmental Activities:			
Culture and Recreation	472,006.03	2,900.00	47,073.68
			(422,032.35)
General Revenues:			
Taxes:			
Property taxes; levied for general purposes			241,598.12
Telecommunications tax			829.45
Homestead tax credit			1,206.58
Disabled veterans tax credit			438.47
State aid - not restricted to specific program			42,242.18
Earnings on investments and other revenue			4,091.76
Total General Revenues			290,406.56
Change in Net Position			(131,625.79)
Net Position - January 1			640,511.31
Net Position - December 31			508,885.52

The accompanying notes are an integral part of these financial statements.

MCLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Balance Sheet
Governmental Fund
December 31, 2019

	<u>Major Fund</u>
	<u>General</u>
<u>ASSETS:</u>	
Cash	159,943.66
Taxes Receivable	7,526.92
Due from County Treasurer	<u>97,229.29</u>
Total Assets	<u><u>264,699.87</u></u>
 <u>LIABILITIES, DEFERRED INFLOWS</u>	
<u>OF RESOURCES AND FUND BALANCE</u>	
 <u>Liabilities:</u>	
Payroll Taxes Payable	<u>258.00</u>
 <u>Deferred Inflows of Resources:</u>	
Unavailable Revenue	<u>104,027.91</u>
Total Liabilities and Deferred Inflows of Resources	<u>104,285.91</u>
 <u>Fund Balance:</u>	
Unassigned	<u>160,413.96</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u><u>264,699.87</u></u>

The accompanying notes are an integral part of these financial statements.

MCLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Balance Sheet
Governmental Fund
December 31, 2018

	<u>Major Fund</u>
	<u>General</u>
<u>ASSETS:</u>	
Cash	319,563.80
Taxes Receivable	7,281.20
Due from County Treasurer	<u>65,009.94</u>
Total Assets	<u><u>391,854.94</u></u>
 <u>LIABILITIES, DEFERRED INFLOWS</u>	
<u>OF RESOURCES AND FUND BALANCE</u>	
<u>Liabilities:</u>	
Payroll Taxes Payable	<u>251.00</u>
<u>Deferred Inflows of Resources:</u>	
Unavailable Revenue	<u>71,219.62</u>
Total Liabilities and Deferred Inflows of Resources	<u>71,470.62</u>
<u>Fund Balance:</u>	
Unassigned	<u>320,384.32</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u><u>391,854.94</u></u>

The accompanying notes are an integral part of these financial statements.

MCLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Reconciliation of Governmental Fund Balance Sheet
to the Statement of Net Position
For the Year Ended December 31, 2019

Total Fund Balance for Governmental Fund		160,413.96
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental fund.		
Cost of Capital Assets	213,200.00	
Less Accumulated Depreciation	<u>(42,640.00)</u>	
Net Capital Assets		170,560.00
Some revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as unavailable revenue in the fund.		
Property Taxes Receivable		<u>7,526.92</u>
Total Net Position of Governmental Activities		<u>338,500.88</u>

The accompanying notes are an integral part of these financial statements.

MCLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Reconciliation of Governmental Fund Balance Sheet
to the Statement of Net Position
For the Year Ended December 31, 2018

Total Fund Balance for Governmental Fund		320,384.32
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental fund.		
Cost of Capital Assets	213,200.00	
Less Accumulated Depreciation	<u>(31,980.00)</u>	
Net Capital Assets		181,220.00
Some revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as unavailable revenue in the fund.		
Property Taxes Receivable		<u>7,281.20</u>
Total Net Position of Governmental Activities		<u><u>508,885.52</u></u>

The accompanying notes are an integral part of these financial statements.

MCLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund
For the Year Ended December 31, 2019

	Major Fund
	General
<u>Revenues:</u>	
<u>Taxes</u>	
General Property Taxes	233,873.34
<u>Intergovernmental</u>	
State Aid Distribution	46,714.85
Telecommunications Tax	829.45
Homestead Tax Credit	2,111.44
Disabled Veterans Tax Credit	456.14
NDSU State Library Grant	580.00
Total Intergovernmental	50,691.88
<u>Charges for Services</u>	
Bookmobile	2,700.00
<u>Miscellaneous</u>	
Interest	3,078.94
Other	1,068.38
Total Miscellaneous	4,147.32
Total Revenues	291,412.54
<u>Expenditures:</u>	
<u>Current:</u>	
<u>Culture and Recreation</u>	
Salaries and Wages	278,687.39
Taxes and Benefits	40,063.76
Bookmobile	10,418.62
Library Material	39,917.79
Bookbinding and Processing	981.00
Supplies and Services	1,290.64
Furniture and Equipment	757.62
Telephone/Utilities	6,058.64
Travel	2,530.38
Insurance	2,854.57
Workshops	12,864.84
Professional Fees	2,180.00
Technology	538.00
Computers	2,159.67
Branch Services	18,016.00
Marketing	161.33
Info Lynx	30,301.69
Other	1,600.96
Total Expenditures	451,382.90
Net Change in Fund Balance	(159,970.36)
Fund Balance - January 1	320,384.32
Fund Balance - December 31	160,413.96

The accompanying notes are an integral part of these financial statements.

MCLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund
For the Year Ended December 31, 2018

	Major Fund
	General
<u>Revenues:</u>	
<u>Taxes</u>	
General Property Taxes	244,205.44
<u>Intergovernmental</u>	
State Aid to Public Libraries	47,073.68
State Aid Distribution	42,242.18
Telecommunications Tax	829.45
Homestead Tax Credit	1,206.58
Disabled Veterans Tax Credit	438.47
Total Intergovernmental	91,790.36
<u>Charges for Services</u>	
Bookmobile	2,900.00
<u>Miscellaneous</u>	
Interest	2,816.95
Other	1,274.81
Total Miscellaneous	4,091.76
Total Revenues	342,987.56
<u>Expenditures:</u>	
<u>Current:</u>	
<u>Culture and Recreation</u>	
Salaries and Wages	266,686.42
Taxes and Benefits	41,552.71
Bookmobile	9,501.20
Library Material	51,901.74
Bookbinding and Processing	1,176.32
Supplies and Services	1,201.10
Furniture and Equipment	728.57
Telephone/Utilities	4,522.72
Travel	2,106.99
Insurance	3,257.82
Workshops	11,462.52
Professional Fees	4,175.00
Technology	895.00
Computers	4,115.24
Branch Services	17,917.00
Marketing	155.54
Info Lynx	28,163.18
Imagination Library	10,000.00
Other	1,826.96
Total Expenditures	461,346.03
Net Change in Fund Balance	(118,358.47)
Fund Balance - January 1	438,742.79
Fund Balance - December 31	320,384.32

MCLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Reconciliation of Governmental Fund Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities
For the Year Ended December 31, 2019

Net Change in Fund Balance - Total Governmental Fund (159,970.36)

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

The governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current year.

Current Year Capital Outlay	-	
Current Year Depreciation Expense	<u>(10,660.00)</u>	(10,660.00)

Some revenues reported on the statement of activities are not reported as revenues in the governmental fund since they do not represent available resources to pay current expenditures.

Net Increase in Taxes Receivable	<u>245.72</u>
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Change in Net Position of Governmental Activities (170,384.64)

The accompanying notes to the financial statements are an integral part of these financial statements.

MCLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Reconciliation of Governmental Fund Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities
For the Year Ended December 31, 2018

Net Change in Fund Balance - Total Governmental Fund (118,358.47)

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

The governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current year.

Current Year Capital Outlay	-	
Current Year Depreciation Expense	<u>(10,660.00)</u>	(10,660.00)

Some revenues reported on the statement of activities are not reported as revenues in the governmental fund since they do not represent available resources to pay current expenditures.

Net Decrease in Taxes Receivable		<u>(2,607.32)</u>
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Change in Net Position of Governmental Activities		<u><u>(131,625.79)</u></u>
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The accompanying notes to the financial statements are an integral part of these financial statements.

MCLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Notes to the Financial Statements
December 31, 2019 and 2018

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the McLean-Mercer Regional Library have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

The accompanying financial statements present the activities of the library. The library has considered all potential component units for which the library is financially accountable and other organizations for which the nature and significance of their relationships with the library are such that exclusion would cause the library's financial statements to be misleading or incomplete. The Government Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the soil conservation district to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the library.

Based on these criteria, there are no component units to be included within the McLean-Mercer Regional Library as a reporting entity.

B. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities display information about the primary government, McLean-Mercer Regional Library. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the library's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the library's fund. The emphasis of fund financial statements is on the major governmental fund.

The library reports the following major governmental fund:

General Fund. This is the library's primary operating fund. It accounts for all financial resources of the general government.

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

Government-wide Financial Statements: The government-wide financial statements are reported using the economic resources measurement focus. These financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the library gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The library considers all revenues reported in the governmental fund to be available if the revenues are collected within sixty days after year-end. All revenues are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in the governmental fund. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the library funds certain programs by a combination of specific cost-reimbursements grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted components of net position available to finance the program. It is the library's policy to first apply cost-reimbursement grant resources to such programs, and then by general revenues.

D. Cash

Cash includes amounts in demand deposits and money market accounts.

E. Capital Assets

Capital assets include vehicles and equipment. Assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the library as assets with an initial individual cost of \$5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Vehicles

20 Years

F. Compensated Absences

No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Vested or accumulated vacation leave is not reported in the government-wide statement of net position as it is considered immaterial.

G. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as “fund balance”. Fund equity for all other reporting is classified as “net position”.

Fund Balance – Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the library is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

Nonspendable – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash such as inventories or prepaid expenses) or (b) legally or contractually required to be maintained intact (i.e., endowment funds).

Restricted – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the library or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments (i.e., funds restricted by state statute, unspent bond proceeds, grants earned but not spent, debt covenants or taxes raised for a specific purpose).

Committed – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the governing board through the adoption of a resolution. The governing board also may modify or rescind the commitment.

Assigned – Fund balances are reported as assigned when amounts are constrained by the library’s intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned – Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The library reports positive unassigned fund balance only in the general fund. Negative fund balances may be reported in all funds.

Flow Assumptions – When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the library’s policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the library’s policy to use fund balance in the following order:

- Committed
- Assigned
- Unassigned

Net Position – Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the library has not spent) for the acquisition, construction or improvement of those assets. Net position is reported as restricted as described in the fund balance section above. All other net position is reported as unrestricted.

H. 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 certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

Note 2 DEPOSITS AND INVESTMENTS

In accordance with North Dakota Statutes, the library maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal Land Bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district or any other political subdivision of the State of North Dakota, whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or other securities approved by the banking board.

At December 31, 2019 the library's carrying amount of deposits was \$159,944 and the bank balance was \$175,834. Of the bank balance, \$175,834 was covered by Federal Depository Insurance.

At December 31, 2018 the library's carrying amount of deposits was \$319,564 and the bank balance was \$338,155. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$88,155 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

The library may invest idle funds as authorized in North Dakota Statutes, as follows:

- (1) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities or organizations created by an act of Congress.

- (2) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- (3) Certificates of deposit fully insured by the federal deposit insurance corporation.
- (4) Obligations of the State.

Concentration of Credit Risk

The library does not have a limit on the amount the library may invest in any one issuer.

Note 3 TAXES RECEIVABLE

Taxes receivable represents the past two years of uncollected current and delinquent taxes. No allowance has been established for uncollectible taxes receivable.

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Any material tax collections are distributed after the end of each month.

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1 and may be paid in two installments. The first installment includes one-half of the real estate taxes and all the special assessments and the second installment is the balance of the real estate taxes. The first installment is due by March 1 and the second installment is due by October 15. A 5% discount is allowed if all taxes and special assessments are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed.

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the discount on the property taxes.

Note 4 DUE FROM COUNTY TREASURER

The amount due from county treasurer consists of the cash on hand for taxes collected but not remitted to the library at December 31.

Note 5 CAPITAL ASSETS

The following is a summary of changes in capital assets for the years ended:

	<u>December 31, 2019</u>			Balance December 31
	Balance January 1	Increases	Decreases	
Governmental Activities:				
<i>Capital assets being depreciated:</i>				
Vehicles	213,200			213,200
<i>Less accumulated depreciation for:</i>				
Vehicles	31,980	10,660		42,640
Governmental Activities Capital Assets, Net	<u>181,220</u>	<u>(10,660)</u>	<u>-</u>	<u>170,560</u>

	<u>December 31, 2018</u>			Balance December 31
	Balance January 1	Increases	Decreases	
Governmental Activities:				
<i>Capital assets being depreciated:</i>				
Vehicles	213,200			213,200
<i>Less accumulated depreciation for:</i>				
Vehicles	21,320	10,660		31,980
Governmental Activities Capital Assets, Net	<u>191,880</u>	<u>(10,660)</u>	-	<u>181,220</u>

Depreciation expense was charged to functions/programs of the library as follows:

	<u>2019</u>	<u>2018</u>
Culture and Recreation	<u>10,660</u>	<u>10,660</u>

Note 6 PAYROLL TAXES PAYABLE

Payroll taxes payable consists of payroll taxes withheld from employees' wages prior to December 31, but remitted subsequent to that date.

Note 7 UNAVAILABLE REVENUE

Unavailable revenue on the fund financial statements consist of amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable but not available and include taxes receivable and prepaid property taxes.

Unavailable revenue on the government-wide financial statement consist of prepaid property taxes.

Note 8 RISK MANAGEMENT

The McLean-Mercer Regional Library is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The library pays an annual premium to NDIRF for its general liability and automobile insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability, \$1,000,000 for automobile; and \$80,900 for public assets.

The library also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The library pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire

and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides the library with a blanket fidelity bond coverage in the amount of \$244,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The library has worker's compensation with the Department of Workforce Safety and Insurance; and purchases commercial insurance for employee health and accident insurance.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Note 9 PENSION PLAN

The library provides benefits for full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The library contributes 5% of the employee's gross salary for the year. During the years ending December 31, 2019 and 2018, the library contributed \$4,849.41 and \$4,791.37, respectively.

Note 10 TAX ABATEMENTS

The library has no tax abatements for the years ended December 31, 2019 and 2018.

MCLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Budgetary Comparison Schedule
Governmental Fund
For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
<u>Taxes</u>				
General Property Taxes	260,446.00	260,446.00	233,873.34	(26,572.66)
<u>Intergovernmental</u>				
State Aid Distribution	37,000.00	37,000.00	46,714.85	9,714.85
Telecommunications Tax	829.46	829.46	829.45	(0.01)
Homestead Tax Credit	3,850.00	3,850.00	2,111.44	(1,738.56)
Disabled Veterans Tax Credit			456.14	456.14
NDSU State Library Grant			580.00	580.00
Total Intergovernmental	41,679.46	41,679.46	50,691.88	9,012.42
<u>Charges for Services</u>				
Bookmobile	2,500.00	2,500.00	2,700.00	200.00
<u>Miscellaneous</u>				
Interest	2,000.00	2,000.00	3,078.94	1,078.94
Other			1,068.38	1,068.38
Total Miscellaneous	2,000.00	2,000.00	4,147.32	2,147.32
Total Revenues	306,625.46	306,625.46	291,412.54	(15,212.92)
<u>Expenditures:</u>				
<u>Current:</u>				
<u>Culture and Recreation</u>				
Salaries and Wages	291,921.10	291,921.10	278,687.39	13,233.71
Taxes and Benefits	46,905.10	46,905.10	40,063.76	6,841.34
Bookmobile	10,000.00	10,000.00	10,418.62	(418.62)
Library Material	31,000.00	31,000.00	39,917.79	(8,917.79)
Bookbinding and Processing	1,750.00	1,750.00	981.00	769.00
Supplies and Services	1,750.00	1,750.00	1,290.64	459.36
Furniture and Equipment	1,500.00	1,500.00	757.62	742.38
Telephone/Utilities	7,500.00	7,500.00	6,058.64	1,441.36
Travel	3,250.00	3,250.00	2,530.38	719.62
Insurance	4,500.00	4,500.00	2,854.57	1,645.43
Workshops	15,750.00	15,750.00	12,864.84	2,885.16
Professional Fees	2,200.00	2,200.00	2,180.00	20.00
Technology	2,750.00	2,750.00	538.00	2,212.00
Computers	5,000.00	5,000.00	2,159.67	2,840.33
Branch Services	18,000.00	18,000.00	18,016.00	(16.00)
Marketing	250.00	250.00	161.33	88.67
Info Lynx	38,000.00	38,000.00	30,301.69	7,698.31
Imagination Library	5,000.00	5,000.00		5,000.00
Other	1,150.00	1,150.00	1,600.96	(450.96)
Total Expenditures	488,176.20	488,176.20	451,382.90	36,793.30
Net Change in Fund Balance	(181,550.74)	(181,550.74)	(159,970.36)	21,580.38
Fund Balance - January 1	320,384.32	320,384.32	320,384.32	
Fund Balance - December 31	138,833.58	138,833.58	160,413.96	21,580.38

MCLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Budgetary Comparison Schedule
Governmental Fund
For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
<u>Taxes</u>				
General Property Taxes	241,211.85	241,211.85	244,205.44	2,993.59
<u>Intergovernmental</u>				
State Aid to Public Libraries	44,101.00	44,101.00	47,073.68	2,972.68
State Aid Distribution	40,000.00	40,000.00	42,242.18	2,242.18
Telecommunications Tax	695.82	695.82	829.45	133.63
Homestead Tax Credit	3,100.00	3,100.00	1,206.58	(1,893.42)
Disabled Veterans Tax Credit			438.47	438.47
Total Intergovernmental	87,896.82	87,896.82	91,790.36	3,893.54
<u>Charges for Services</u>				
Bookmobile	2,500.00	2,500.00	2,900.00	400.00
<u>Miscellaneous</u>				
Interest	2,000.00	2,000.00	2,816.95	816.95
Miscellaneous			1,274.81	1,274.81
Total Miscellaneous	2,000.00	2,000.00	4,091.76	2,091.76
Total Revenues	333,608.67	333,608.67	342,987.56	9,378.89
Expenditures:				
<u>Current:</u>				
<u>Culture and Recreation</u>				
Salaries and Wages	283,439.40	283,439.40	266,686.42	16,752.98
Taxes and Benefits	46,194.00	46,194.00	41,552.71	4,641.29
Bookmobile	10,000.00	10,000.00	9,501.20	498.80
Library Material	55,763.42	55,763.42	51,901.74	3,861.68
Bookbinding and Processing	2,000.00	2,000.00	1,176.32	823.68
Supplies and Services	2,000.00	2,000.00	1,201.10	798.90
Furniture and Equipment	5,000.00	5,000.00	728.57	4,271.43
Telephone/Utilities	4,000.00	4,000.00	4,522.72	(522.72)
Travel	3,750.00	3,750.00	2,106.99	1,643.01
Insurance	5,500.00	5,500.00	3,257.82	2,242.18
Workshops	15,750.00	15,750.00	11,462.52	4,287.48
Professional Fees	3,800.00	3,800.00	4,175.00	(375.00)
Technology	3,000.00	3,000.00	895.00	2,105.00
Computers	7,500.00	7,500.00	4,115.24	3,384.76
Branch Services	18,000.00	18,000.00	17,917.00	83.00
Marketing	1,000.00	1,000.00	155.54	844.46
Info Lynx	34,000.00	34,000.00	28,163.18	5,836.82
Imagination Library	10,000.00	10,000.00	10,000.00	-
Other	1,700.00	1,700.00	1,826.96	(126.96)
Total Expenditures	512,396.82	512,396.82	461,346.03	51,050.79
Net Change in Fund Balance	(178,788.15)	(178,788.15)	(118,358.47)	60,429.68
Fund Balance - January 1	438,742.79	438,742.79	438,742.79	
Fund Balance - December 31	259,954.64	259,954.64	320,384.32	60,429.68

MCLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Notes to the Budgetary Comparison Schedules
December 31, 2019 and 2018

Note 1 SUMMARY OF SIGNIFICANT BUDGET POLICIES

Based upon available financial information and requests by the governing board, the library director prepares the library's budget. The budget is prepared for the general fund on the modified accrual basis of accounting. The budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year end.

The library's taxes must be levied by the governing board on or before August 10. The taxes levied must be certified to the county auditor by August 10. The governing board may amend its tax levy and budget, but the certification must be filed with the county auditor by October 10. The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.

Note 2 LEGAL COMPLIANCE

The governing board did not amend the library's budgets during the years ended December 31, 2019 and 2018.

Rath & Mehrer, P.C.

Certified Public Accountants

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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

INDEPENDENT AUDITOR'S REPORT

Governing Board
McLean-Mercer Regional Library
Riverdale, North Dakota

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 the major fund of the McLean-Mercer Regional Library, Riverdale, North Dakota, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the library's basic financial statements, and have issued our report thereon dated September 25, 2020.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the library's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2019-001 and 2019-002, that we consider to be significant deficiencies.

Compliance and Other Matters

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

Library's Response to Findings

The library's response to the findings identified in our audits are described in the accompanying *Schedule of Findings and Responses*. The library's response was not subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Rath and Mehrer, P.C.

Bismarck, North Dakota

September 25, 2020

MCLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Schedule of Findings and Responses
For the Years Ended December 31, 2019 and 2018

SECTION I – SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor's Report Issued:

Governmental Activities	Unmodified
Major Governmental Fund	Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported
- Noncompliance material to financial statements noted? Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. 2019-001 – Segregation of Duties

Criteria: To ensure adequate internal control over financial reporting and prevent material misstatements due to errors or fraud, there should be a segregation of the functions of approval, custody of assets, posting and reconciliation.

Condition: The library has one person responsible for most accounting functions. The employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger and prepare bank reconciliations.

Cause: The library does not have a large enough staff to properly segregate all duties.

Effect: A lack of segregation of duties leads to a limited degree of internal control.

Recommendation: We recommend that management and the governing board be aware of the lack of segregation of duties and implement controls whenever possible to mitigate this risk.

Views of Responsible Officials: The library is aware of the condition and segregates duties whenever possible.

2. 2019-002- Financial Statement Preparation

Criteria: A good system of internal controls requires the library to determine that the financial statements are prepared based on accounting principles generally accepted in the United States of America. This means that the library must maintain knowledge of current accounting principles and required financial statement disclosures.

Condition: The library's financial statements, including the accompanying note disclosures, are prepared by the library's external auditors.

Cause: The library feels that it is more cost effective to have their external auditors prepare the complete financial statements and disclosures, rather than invest in ongoing specialized training that would be necessary.

Effect: Without the assistance of the auditors, the financial statements could be misstated or omit material financial statement disclosures.

Recommendation: We recommend that management be aware of this condition and be prepared and able to provide all necessary information and schedules to complete the financial statements and disclosures; and review and approve them prior to distribution.

Views of Responsible Officials: The library will continue to have the external auditors prepare the financial statements, including note disclosures, but will review and approve them prior to external distribution.