

AUDIT REPORT

**McLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota**

For the Years Ended December 31, 2017 and 2016

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

McLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

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For the Years Ended December 31, 2017 and 2016

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McLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

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Rath & Mehler, P.C.

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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, 2017 and 2016, 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, 2017 and 2016, 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 management's discussion and analysis on pages 4 through 9 and budgeting comparison information on pages 29 through 31 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2018 on our consideration of the library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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

Rath and Mehrer, P.C.

Bismarck, North Dakota

September 7, 2018

MCLEAN-MERCER REGIONAL LIBRARY

Management's Discussion and Analysis

December 31, 2017 and 2016

The Management's Discussion and Analysis (MD&A) of the McLean-Mercer Regional Library's financial performance provides an overall review of the library's financial activities for the fiscal years ended December 31, 2017 and 2016. The intent of the MD&A is to look at the library's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

The MD&A is a new element of the Required Supplementary Information specified in the Government Accounting Standards Board's (GASB) Statement No. 34 "*Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*". Certain comparative information between the current fiscal year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the year ended December 31, 2017 are as follows:

- * Net position of the regional library increased \$39,900 as a result of the current year's operations.
- * Governmental net position as of the end of the fiscal year totaled \$640,511.
- * Total revenues from all sources were \$537,129.
- * Total expenses were \$497,229.
- * The library's general fund had \$537,250 in total revenues and \$486,569 in total expenditures. Overall, the general fund balance increased by \$50,681 for the year ended December 31, 2017.

Key financial highlights for the year ended December 31, 2016 are as follows:

- * Net position of the regional library increased \$59,876 as a result of the current year's operations.
- * Governmental net position as of the end of the fiscal year totaled \$600,611.
- * Total revenues from all sources were \$519,025.
- * Total expenses were \$459,149.
- * The library's general fund had \$516,680 in total revenues and \$555,089 in total expenditures. Overall, the general fund balance decreased by \$38,409 for the year ended December 31, 2016.

USING THIS ANNUAL REPORT

This annual financial report consists of a series of statements and related footnotes. These statements are organized so that the reader can understand the library as a financial whole. The statements then proceed to provide an increasingly detailed look at financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole library, presenting both an aggregate view of the library's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the library's general fund.

REPORTING ON THE LIBRARY AS A WHOLE

Statement of Net Position and Statement of Activities

These statements are summaries of all the funds used by the library to provide programs and activities and attempt to answer the question "How did the library do financially during the years ended December 31, 2017 and 2016?"

The Statement of Net Position presents information on all the library's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the library is improving or deteriorating.

The Statement of Activities presents information on how the library's net position changed during the fiscal year. This statement is presented using the accrual basis of accounting, which means that all changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused sick leave and/or vacation leave).

These two statements report the library's net position and changes in that position. This change in net position is important because it tells the reader whether, for the library as a whole, the financial position of the library has improved or deteriorated. The causes of this change may be the result of many factors, some financial and some not.

In the Statement of Net Position and the Statement of Activities, the library reports governmental activities. Governmental activities are the activities where most of the library's programs and services are reported including, but not limited to, culture and recreation.

REPORTING ON THE LIBRARY'S MOST SIGNIFICANT FUNDS

Balance Sheet - Governmental Funds

The library uses one fund to account for and manage money dedicated for particular purposes (e.g. taxes collected from special mill levies and funds received from grants and donations). The fund basis financial statements allow the library to demonstrate its stewardship over and accountability for resources provided by taxpayers and other entities. Fund financial statements provide detailed information about the library's major fund. Using the criteria established by GASB Statement No. 34, the library's general fund is considered a "major fund".

FINANCIAL ANALYSIS OF THE LIBRARY AS A WHOLE

Table I provides a summary of the library's net position as of December 31, 2017 and 2016. A comparative analysis of library-wide data is presented for both current years and prior year.

As indicated in the financial highlights above, the library's net position increased by \$39,900 and \$59,876 for the years ended December 31, 2017 and 2016, respectively. Changes in net position may serve over time as a useful indicator of the library's financial position.

The library's net position of \$640,511, as of December 31, 2017 is segregated into two separate categories. Net investment in capital assets totals \$191,880. It should be noted that these assets are not available for future spending. The remaining unrestricted component of net position is \$448,631 and is available to meet the library's ongoing obligations.

The library's net position of \$600,611, as of December 31, 2016 is segregated into two separate categories. Net investment in capital assets totals \$202,540. It should be noted that these assets are not available for future spending. The remaining unrestricted component of net position is \$398,071 and is available to meet the library's ongoing obligations.

Table I
Net Position
As of December 31, 2017 and 2016
(With comparative totals for December 31, 2015)

	2017	2016	2015
<u>Assets</u>			
Current Assets	512,398	475,511	530,107
Capital Assets (net of accumulated depreciation)	191,880	202,540	106,600
Total Assets	704,278	678,051	636,707
<u>Liabilities</u>			
Current Liabilities	241	256	
<u>Deferred Inflows of Resources</u>			
Unavailable Revenue	63,525	77,184	95,971
<u>Net Position</u>			
Net Investment in Capital Assets	191,880	202,540	106,600
Unrestricted	448,631	398,071	434,136
Total Net Position	640,511	600,611	540,736
	=====	=====	=====

Table II shows the changes in net position for the fiscal years ended December 31, 2017 and 2016. A comparative analysis of the library's data is presented for both current years and prior year.

Table II
Changes in Net Position
As of December 31, 2017 and 2016
(With comparative totals for December 31, 2015)

	2017	2016	2015
Revenues			
<u>Program Revenues:</u>			
Charges for Services		2,420	
Operating Grants and Contributions	51,883	51,883	48,167
<u>General Revenues:</u>			
Property Taxes	374,097	360,345	343,781
Other Taxes	4,700	4,098	4,150
State Aid - Unrestricted	103,071	97,417	124,708
Interest Earnings and Other Revenue	3,377	2,863	9,739
Total Revenues	537,129	519,025	530,545
Expenses			
Culture and Recreation	497,229	459,149	429,703
Net Change in Position	39,900	59,876	100,842

Property taxes constituted 70%, operating grants and contributions 10% and unrestricted state aid made up 19% of the total revenues of governmental activities of the library for the fiscal year ended December 31, 2017.

Property taxes constituted 69%, operating grants and contributions 10% and unrestricted state aid made up 19% of the total revenues of governmental activities of the library for the fiscal year ended December 31, 2016.

Culture and recreation constituted 100% of total expenses for governmental activities during the fiscal years ended December 31, 2017 and 2016.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table III shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and other unrestricted revenues.

Table III

Total and Net Cost of Services
As of December 31, 2017

	Total Cost Year Ended December 31, <u>2017</u>	Net Cost Year Ended December 31, <u>2017</u>
Culture and Recreation	497,229	445,346
	=====	=====

Total and Net Cost of Services
As of December 31, 2016

	Total Cost Year Ended December 31, <u>2016</u>	Net Cost Year Ended December 31, <u>2016</u>
Culture and Recreation	459,149	404,846
	=====	=====

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The purpose of the library's governmental funds is to provide information on the near-term inflows, outflows and balances of available resources. Unassigned fund balance generally can be used as a measure of the library's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified accrual basis of accounting. The library's general fund had total revenue of \$537,250 and expenditures of \$486,569 for the year ended December 31, 2017. For the year ended December 31, 2016, the library's general fund had total revenue of \$516,680 and expenditures of \$555,089. As of December 31, 2017 and 2016, the unassigned fund balance of the library's general fund was \$438,743 and \$388,062, respectively.

GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal year 2017, the library did not amend the general fund budget. During the course of fiscal year 2016, the library amended the general fund budget. The gross effect of this amendment was to increase appropriations by \$81,600.

Actual revenue for the year ended December 31, 2017 was \$30,476 less than budgeted. Actual expenditures for the year ended December 31, 2017 were under budget by \$81,157. This budget variance was the result of the library overestimating the amount budgeted for salaries and wages and capital outlay related to bookmobile replacement. Actual revenue for the year ended December 31, 2016 was \$27,212 less than budgeted. Actual expenditures for the year ended December 31, 2016 were under budget by \$70,402. This budget variance was the result of the library overestimating the budget for salaries and wages and smaller budget variances for bookmobile operating expenses, furniture and equipment and costs related to employee workshops.

CAPITAL ASSETS

As of December 31, 2017 and 2016, the library had \$191,880 and \$202,540, respectively, invested in capital assets. Table IV shows the balance as of December 31, 2017, 2016 and 2015.

Table IV
Capital Assets
(Net of Accumulated Depreciation)
As of December 31, 2017 and 2016
(With comparative totals for December 31, 2015)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Vehicles	191,880	202,540	106,600
	=====	=====	=====

The December 31, 2017 total represents a decrease of \$10,660 in capital assets from January 1, 2017. The December 31, 2016 total represents an increase of \$95,940 in capital assets from January 1, 2016. The increase in vehicles was the result of the library making the final payment on a new bookmobile.

For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 5 to the audited financial statements which follow this analysis.

DEBT ADMINISTRATION

As of December 31, 2017 and 2016, the library had no outstanding debt.

CONTACTING THE LIBRARY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patrons, taxpayers and creditors with a general overview of the library's finances and to show the library's accountability for the money it receives to provide the best possible services to residents of McLean and Mercer Counties. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact Beth Bruestle, Director, McLean-Mercer Regional Library, Riverdale, ND 58565.

McLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Statement of Net Position
December 31, 2017

	<u>Governmental Activities</u>
<u>ASSETS:</u>	
Cash	437,862.69
Taxes Receivable	9,888.52
Due from County Treasurer	64,646.47
Capital Assets (net of accumulated depreciation) Vehicles	191,880.00
	<hr/>
Total Assets	704,277.68
	<hr/>
<u>LIABILITIES:</u>	
Payroll Taxes Payable	241.00
	<hr/>
<u>DEFERRED INFLOWS OF RESOURCES:</u>	
Unavailable Revenue	63,525.37
	<hr/>
<u>NET POSITION:</u>	
Net Investment in Capital Assets	191,880.00
Unrestricted	448,631.31
	<hr/>
Total Net Position	640,511.31
	=====

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

McLEAN-MERCER REGIONAL LIBRARY
 Riverdale, North Dakota

Statement of Net Position
 December 31, 2016

	<u>Governmental Activities</u>
ASSETS:	
Cash	387,389.65
Taxes Receivable	10,009.70
Due from County Treasurer	78,111.53
Capital Assets (net of accumulated depreciation) Vehicles	202,540.00
Total Assets	<u>678,050.88</u>
LIABILITIES:	
Payroll Taxes Payable	255.79
DEFERRED INFLOWS OF RESOURCES:	
Unavailable Revenue	77,183.73
NET POSITION:	
Net Investment in Capital Assets	202,540.00
Unrestricted	398,071.36
Total Net Position	<u>600,611.36</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, 2017

	Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions
			Governmental Activities
<u>Governmental Activities:</u>			
Culture and Recreation	497,228.73		51,882.83
			(445,345.90)
=====			
<u>General Revenues:</u>			
Taxes:			
Property taxes; levied for general purposes			374,096.70
Telecommunication taxes			829.45
Homestead tax credit			2,988.80
Disabled veterans tax credit			882.04
Intergovernmental revenue not restricted to specific programs			103,071.48
Earnings on investments and other revenue			3,377.38
Total General Revenues			485,245.85
Change in Net Position			39,899.95
Net Position - January 1			600,611.36
Net Position - December 31			640,511.31
=====			

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, 2016

	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
Culture and Recreation	459,149.17	2,420.00	51,882.83	(404,846.34)
=====				
<u>General Revenues:</u>				
Taxes:				
Property taxes; levied for general purposes				360,344.67
Telecommunication taxes				695.81
Homestead tax credit				2,643.00
Disabled veterans tax credit				758.74
Intergovernmental revenue not restricted to specific programs				97,416.61
Earnings on investments and other revenue				2,863.08
Total General Revenues				464,721.91
Change in Net Position				59,875.57
Net Position - January 1				540,735.79
Net Position - December 31				600,611.36
=====				

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

McLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Balance Sheet
Governmental Fund
December 31, 2017

	<u>General</u>
ASSETS:	
Cash	437,862.69
Taxes Receivable	9,888.52
Due from County Treasurer	64,646.47
	<hr/>
Total Assets	512,397.68
	=====
<u>LIABILITIES, DEFERRED INFLOWS</u> <u>OF RESOURCES AND FUND BALANCES</u>	
Payroll Taxes Payable	241.00
	<hr/>
<u>Deferred Inflows of Resources:</u>	
Unavailable Revenue	73,413.89
	<hr/>
<u>Fund Balance:</u>	
Unassigned	438,742.79
	<hr/>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	512,397.68
	=====

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

McLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Balance Sheet
Governmental Fund
December 31, 2016

	General
<u>ASSETS:</u>	
Cash	387,389.65
Taxes Receivable	10,009.70
Due from County Treasurer	78,111.53
<hr/>	
Total Assets	475,510.88
<hr style="border-top: 1px dashed black;"/>	
<u>LIABILITIES, DEFERRED INFLOWS</u>	
<u>OF RESOURCES AND FUND BALANCES</u>	
Payroll Taxes Payable	255.79
<hr/>	
<u>Deferred Inflows of Resources:</u>	
Unavailable Revenue	87,193.43
<hr/>	
<u>Fund Balance:</u>	
Unassigned	388,061.66
<hr/>	
Total Liabilities, Deferred Inflows of Resources and Fund Balance	475,510.88
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The accompanying notes are an integral part of these financial statements.

McLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Reconciliation of Balance Sheet to the Statement of Net Position
For the Year Ended December 31, 2017

Total Fund Balance 438,742.79

Total net position reported for government 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 funds.

Cost of Capital Assets	213,200.00	
Less Accumulated Depreciation	(21,320.00)	
Net Capital Assets		191,880.00

Property taxes 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 funds. 9,888.52

Total Net Position of Governmental Activities 640,511.31

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

McLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Reconciliation of Balance Sheet to the Statement of Net Position
For the Year Ended December 31, 2016

Total Fund Balance 388,061.66

Total net position reported for government 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 funds.

Cost of Capital Assets	213,200.00	
Less Accumulated Depreciation	(10,660.00)	
	<hr/>	
Net Capital Assets		202,540.00

Property taxes 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 funds.

10,009.70

Total Net Position of Governmental Activities 600,611.36
=====

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 Balances - Governmental Fund
For the Year Ended December 31, 2017

	General
Revenues:	
<u>Taxes</u>	
General Property Taxes	374,217.88
Telecommunication Taxes	829.45
Total Taxes	375,047.33
<u>Intergovernmental</u>	
State Aid to Public Libraries	51,882.83
State Aid Distribution	47,152.74
Property Tax Relief	55,918.74
Homestead Tax Credit	2,988.80
Disabled Veterans Credit	882.04
Total Intergovernmental	158,825.15
<u>Miscellaneous</u>	
Interest	2,367.79
Other	1,009.59
Total Miscellaneous	3,377.38
Total Revenues	537,249.86
Expenditures:	
<u>Culture and Recreation</u>	
Salaries and Wages	259,438.47
Taxes and Benefits	38,850.31
Bookmobile	15,497.95
Library Material	56,237.72
Bookbinding and Processing	1,359.42
Supplies and Services	1,343.53
Furniture and Equipment	5,256.73
Telephone/Utilities	3,523.28
Travel	2,425.39
Insurance	3,461.14
Workshops	11,898.82
Accounting	1,965.00
Technology	2,465.74
Computers	6,245.83
Branch Services	33,818.00
Marketing	1,077.21
Info Lynx	28,788.19
Imagination Library	11,600.00
Petty Cash/Postage	1,316.00
Total Expenditures	486,568.73
Net Change in Fund Balances	50,681.13
Fund Balance - January 1	388,061.66
Fund Balance - December 31	438,742.79

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 Balances - Governmental Fund
For the Year Ended December 31, 2016

	General
Revenues:	
<u>Taxes</u>	
General Property Taxes	357,999.63
Telecommunication Taxes	695.81
Total Taxes	358,695.44
<u>Intergovernmental</u>	
State Aid to Public Libraries	51,882.83
State Aid Distribution	46,239.24
Property Tax Relief	51,177.37
Homestead Tax Credit	2,643.00
Disabled Veterans Credit	758.74
Total Intergovernmental	152,701.18
<u>Charges for Services</u>	
Bookmobile	2,420.00
<u>Miscellaneous</u>	
Interest	1,805.27
Other	1,057.81
Total Miscellaneous	2,863.08
Total Revenues	516,679.70
<u>Expenditures:</u>	
<u>Culture and Recreation</u>	
Salaries and Wages	248,209.25
Taxes and Benefits	33,061.47
Bookmobile	4,339.41
Library Material	54,373.55
Bookbinding and Processing	1,126.01
Supplies and Services	1,310.87
Furniture and Equipment	849.04
Telephone/Utilities	3,253.89
Travel	3,003.09
Insurance	4,475.42
Workshops	13,824.19
Audit	1,675.00
Accounting	1,715.00
Technology	2,430.13
Computers	6,976.08
Branch Services	33,728.00
Marketing	921.36
Info Lynx	23,927.41
Imagination Library	7,980.00
Petty Cash/Postage	1,310.00
Capital Outlay	106,600.00
Total Expenditures	555,089.17
Net Change in Fund Balances	(38,409.47)
Fund Balance - January 1	426,471.13
Fund Balance - December 31	388,061.66

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

McLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Reconciliation of Statement of Revenues, Expenditures and Changes in
Fund Balance to the Statement of Activities
For the Year Ended December 31, 2017

Net Change in Fund Balance 50,681.13

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

Governmental funds report 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	0.00	
Current Year Depreciation Expense	10,660.00	(10,660.00)

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

Net Decrease in Taxes Receivable		(121.18)

Change in Net Position of Governmental Activities		39,899.95

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

McLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Reconciliation of Statement of Revenues, Expenditures and Changes in
Fund Balance to the Statement of Activities
For the Year Ended December 31, 2016

Net Change in Fund Balance (38,409.47)

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

Governmental funds report 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 capital outlay exceeded depreciation in the
current year.

Current Year Capital Outlay	106,600.00	
Current Year Depreciation Expense	10,660.00	95,940.00

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

Net Increase in Taxes Receivable		2,345.04
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Change in Net Position of Governmental Activities		59,875.57
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The accompanying notes are an integral part of these financial statements.

MCLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Notes to the Financial Statements
December 31, 2017 and 2016

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 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. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the library 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 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 major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

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, except those required to be accounted for in another fund.

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 an 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 funds 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 governmental funds. 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 plant 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
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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 library through the adoption of a resolution. The library 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 investments 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, 2017 the library's carrying amount of deposits was \$437,863 and the bank balance was \$451,424. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$201,424 was collateralized with securities held by the pledging financial institution's agent in the government's name.

At December 31, 2016 the library's carrying amount of deposits was \$387,390 and the bank balance was \$395,946. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$145,946 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, 2017</u>			
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Governmental Activities: Capital assets being depreciated:				
Vehicles	213,200			213,200
Less accumulated depreciation for:				
Vehicles	10,660	10,600		21,320
Governmental Activities Capital Assets, Net	202,540	10,600	-0-	191,880

	<u>December 31, 2016</u>			
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Governmental Activities: Capital assets being depreciated:				
Vehicles	106,600	106,600		213,200
Less accumulated depreciation for:				
Vehicles		10,660		10,660
Governmental Activities Capital Assets, Net	106,600	95,940	-0-	202,540

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

	<u>2017</u>	<u>2016</u>
Culture and Recreation	10,660	10,660

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 consists 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 current years property taxes.

Unavailable revenue on the government-wide statements, consists of the current years property taxes, which are included in the amount due from county treasurer.

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 (NDRIF), 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 city pays an annual premium to NDRIF for its general liability, automobile and public assets insurance coverage. The coverage by NDRIF 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 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, 2017 and 2016, the library contributed \$4,505.78 and \$4,674.34, respectively.

McLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Budgetary Comparison Schedule
For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
<u>Taxes</u>				
General Property Taxes	452,546.94	452,546.94	374,217.88	(78,329.06)
Telecommunication Taxes	695.82	695.82	829.45	133.63
Total Taxes	453,242.76	453,242.76	375,047.33	(78,195.43)
<u>Intergovernmental</u>				
State Aid To Public Libraries	51,882.83	51,882.83	51,882.83	
State Aid Distribution	55,000.00	55,000.00	47,152.74	(7,847.26)
Property Tax Relief			55,918.74	55,918.74
Homestead Tax Credit	3,100.00	3,100.00	2,988.80	(111.20)
Disabled Veterans Credit			882.04	882.04
Total Intergovernmental	109,982.83	109,982.83	158,825.15	48,842.32
<u>Miscellaneous</u>				
Interest	2,000.00	2,000.00	2,367.79	367.79
Other	2,500.00	2,500.00	1,009.59	(1,490.41)
Total Miscellaneous	4,500.00	4,500.00	3,377.38	(1,122.62)
Total Revenues	567,725.59	567,725.59	537,249.86	(30,475.73)
<u>Expenditures:</u>				
<u>Culture and Recreation</u>				
Salaries and Wages	278,927.80	278,927.80	259,438.47	19,489.33
Taxes and Benefits	38,992.25	38,992.25	38,850.31	141.94
Bookmobile	10,000.00	10,000.00	15,497.95	(5,497.95)
Library Material	60,105.54	60,105.54	56,237.72	3,867.82
Bookbinding and Processing	2,500.00	2,500.00	1,359.42	1,140.58
Supplies and Services	2,500.00	2,500.00	1,343.53	1,156.47
Furniture and Equipment	7,500.00	7,500.00	5,256.73	2,243.27
Telephone/Utilities	4,250.00	4,250.00	3,523.28	726.72
Repairs and Improvements	350.00	350.00		350.00
Travel	3,750.00	3,750.00	2,425.39	1,324.61
Insurance	6,000.00	6,000.00	3,461.14	2,538.86
Workshops	21,000.00	21,000.00	11,898.82	9,101.18
Accounting	2,000.00	2,000.00	1,965.00	35.00
Technology	3,000.00	3,000.00	2,465.74	534.26
Computer	12,500.00	12,500.00	6,245.83	6,254.17
Branch Services	34,000.00	34,000.00	33,818.00	182.00
Marketing	1,000.00	1,000.00	1,077.21	(77.21)
Info Lynx	26,000.00	26,000.00	28,788.19	(2,788.19)
Imagination Library	13,000.00	13,000.00	11,600.00	1,400.00
Petty Cash/Postage	1,350.00	1,350.00	1,316.00	34.00
Capital Outlay	39,000.00	39,000.00		39,000.00
Total Expenditures	567,725.59	567,725.59	486,568.73	81,156.86
Net Change in Fund Balances			50,681.13	50,681.13
Fund Balance - January 1	388,061.66	388,061.66	388,061.66	
Fund Balance - December 31	388,061.66	388,061.66	438,742.79	50,681.13

McLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Budgetary Comparison Schedule
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
<u>Taxes</u>				
General Property Taxes	407,345.57	407,345.57	357,999.63	(49,345.94)
Telecommunication Taxes	828.82	828.82	695.81	(133.01)
Total Taxes	408,174.39	408,174.39	358,695.44	(49,478.95)
<u>Intergovernmental</u>				
State Aid To Public Libraries	48,167.00	48,167.00	51,882.83	3,715.83
State Aid Distribution	40,000.00	40,000.00	46,239.24	6,239.24
Property Tax Relief	40,000.00	40,000.00	51,177.37	11,177.37
Homestead Tax Credit	3,050.00	3,050.00	2,643.00	(407.00)
Disabled Veterans Credit			758.74	758.74
Total Intergovernmental	131,217.00	131,217.00	152,701.18	21,484.18
<u>Charges for Services</u>				
Bookmobile			2,420.00	2,420.00
<u>Miscellaneous</u>				
Interest	2,000.00	2,000.00	1,805.27	(194.73)
Other	2,500.00	2,500.00	1,057.81	(1,442.19)
Total Miscellaneous	4,500.00	4,500.00	2,863.08	(1,636.92)
Total Revenues	543,891.39	543,891.39	516,679.70	(27,211.69)
<u>Expenditures:</u>				
<u>Culture and Recreation</u>				
Salaries and Wages	265,000.00	265,000.00	248,209.25	16,790.75
Taxes and Benefits	37,694.50	37,694.50	33,061.47	4,633.03
Bookmobile	15,000.00	15,000.00	4,339.41	10,660.59
Library Material	55,746.89	55,746.89	54,373.55	1,373.34
Bookbinding and Processing	2,500.00	2,500.00	1,126.01	1,373.99
Supplies and Services	2,500.00	2,500.00	1,310.87	1,189.13
Furniture and Equipment	13,500.00	13,500.00	849.04	12,650.96
Telephone/Utilities	4,750.00	4,750.00	3,253.89	1,496.11
Repairs and Improvements	350.00	350.00		350.00
Travel	3,800.00	3,800.00	3,003.09	796.91
Insurance	3,000.00	3,000.00	4,475.42	(1,475.42)
Workshops	21,000.00	21,000.00	13,824.19	7,175.81
Audit	1,700.00	1,700.00	1,675.00	25.00
Accounting	2,000.00	2,000.00	1,715.00	285.00
Technology	2,000.00	2,000.00	2,430.13	(430.13)
Computer	12,500.00	12,500.00	6,976.08	5,523.92
Branch Services	34,000.00	34,000.00	33,728.00	272.00
Marketing	1,500.00	1,500.00	921.36	578.64
Info Lynx	26,000.00	26,000.00	23,927.41	2,072.59
Imagination Library	13,000.00	13,000.00	7,980.00	5,020.00
Petty Cash/Postage	1,350.00	1,350.00	1,310.00	40.00
Capital Outlay	25,000.00	106,600.00	106,600.00	
Total Expenditures	543,891.39	625,491.39	555,089.17	70,402.22
Net Change in Fund Balances		(81,600.00)	(38,409.47)	43,190.53
Fund Balance - January 1	426,471.13	426,471.13	426,471.13	
Fund Balance - December 31	426,471.13	344,871.13	388,061.66	43,190.53

McLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Notes to the Budgetary Comparison Schedules
December 31, 2017 and 2016

Note 1 SUMMARY OF SIGNIFICANT BUDGET POLICIES

The library board prepares an annual library budget. The budget is prepared for the general fund by function and activity on the modified accrual basis of accounting. The preliminary budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year-end. The library's governing board holds a public hearing where any county taxpayer may testify in favor of or against any proposed disbursements or tax levies. After the budget hearing and on or before October 7, the board adopts the final budget. The final budget is sent to the county auditor by October 10.

No disbursement shall be made or liability incurred in excess of the appropriation except for transfers as authorized by North Dakota Century Code Section 40-40-15. The budget may be amended during the year for any receipts and appropriations not anticipated at the time the budget was prepared except no amendment changing the taxes levied can be made after October 10. At year-end, the balance of each appropriation becomes a part of the unappropriated fund balance, except for a special appropriation that does not lapse until the work is completed.

Note 2 LEGAL COMPLIANCE

Budget Amendments

The governing board did not amend the library's budget for the year ending December 31, 2017. For the year ending December 31, 2016, the governing board approved the following amendment to the library's budget:

	<u>Original Budget</u>	<u>Amendment</u>	<u>Amended Budget</u>
		<u>Appropriations</u>	
General Fund	543,891	81,600	625,491

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, 2017 and 2016, 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 7, 2018.

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 II-1 and II-2, 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

Rath and Mehrer, P.C.

Bismarck, North Dakota

September 7, 2018

McLEAN-MERCER REGIONAL LIBRARY
Riverdale, North Dakota

Schedule of Findings and Responses
For the Years Ended December 31, 2017 and 2016

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	___X___ No
* Significant deficiency(ies) identified?	___X___ Yes	_____ None Reported
Noncompliance Material to financial statements noted?	_____ Yes	___X___ No

SECTION II - FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. Segregation of Duties

Condition: The library has one person responsible for most accounting functions.

Criteria: There should be sufficient accounting personnel so duties of employees are segregated. The segregation of duties would provide better control over assets of the library.

Effect: There is no segregation of duties as one 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 financial statements. This increases the risk of misstatement of the library's financial condition.

Recommendation: Due to the size of the library, it is not feasible to obtain proper separation of duties and no recommendation will be made.

Client Response: No response is considered necessary..

2. Financial Statement Preparation

Condition: The library's financial statements as of December 31, 2017 and 2016 are prepared by the library's external auditors.

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.

Effect: A control system is not in place to determine that the financial statements are properly stated and in compliance with accounting principles generally accepted in the United States of America.

Recommendation: We recommend the library obtain the necessary knowledge of current accounting principles to prepare financial statements or outsource the preparation of its financial statements.

Client Response: It is not cost effective for the library to prepare its own financial statements.

Rath & Mehrer, P.C.

Certified Public Accountants

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Governing Board
McLean-Mercer Regional Library
Riverdale, North Dakota

Our audits of the financial records of the McLean-Mercer Regional Library, Riverdale, North Dakota, for the years ended December 31, 2017 and 2016 have disclosed opportunities for improvements in the operations of the library. Items which we believe should be brought to your attention are set forth below:

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GOVERNING BOARD MINUTES

During the course of our audit and review of the governing board minutes, it came to our attention that the board's minutes were not being signed, on a consistent basis, by the governing board's president and secretary. The governing board's minutes should be signed by the board secretary upon preparation and by the board's president when approved at a subsequent board meeting. We recommend that the library's board minutes be signed as described.

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This letter is intended solely for the use of management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this letter which, upon acceptance by the library, is a matter of public record.

We would like to acknowledge all the assistance and many courtesies extended to us by the personnel of the library during our audits.



Rath and Mehrer, P.C.

September 7, 2018