

KITCHIGAMI REGIONAL LIBRARY

FINANCIAL STATEMENTS

DECEMBER 31, 2005

KITCHIGAMI REGIONAL LIBRARY

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INTRODUCTORY SECTION

**KITCHIGAMI REGIONAL LIBRARY
OFFICIAL DIRECTORY
DECEMBER 31, 2005**

POSITION	NAME
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OFFICIALS

President	Beltrami County	Randall Burg
Vice President	Hubbard County (County Commissioner)	Dick Devine
Secretary	Crow Wing County	Dawn Stattine
Treasurer	City of Park Rapids	Dan Olson
Director		Marian Ridge

DIRECTORS

Jack Frost (County Commissioner)	Beltrami County	JoAnne Henningsgaard	City of Bemidji
Bob Kangas (County Commissioner)	Cass County	Leo Johnson	City of Blackduck
Dee Hillstrom	Cass County	Thomas J. Peterson	City of Brainerd
Gary Walters (County Commissioner)	Crow Wing County	No Representative	City of Cass Lake
Rita Schuldt	Hubbard County	Lauren Annie Rowe	City of Longville
David Mattila (County Commissioner)	Wadena County	Dan Olson	City of Park Rapids
Marci Olson	Wadena County	Elaine Lefebvre	City of Pine River
		Paul Carlson	City of Wadena
		Audrey Chelberg	City of Walker

FINANCIAL SECTION

MATHIAS C. JUSTIN, LTD.
Certified Public Accountants

Mick Justin, CPA
Judith Moravec, CPA

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American Institute of
Certified Public Accountants
Minnesota Society of
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Kitchigami Regional Library
Pine River, Minnesota

We have audited the accompanying financial statements of the Kitchigami Regional Library, as of December 31, 2005, and for the year then ended. These financial statements are the responsibility of Kitchigami Regional Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

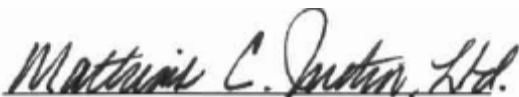
Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

We were unable to audit the library books and materials assets as the Library does not maintain records that provide complete accounting for the historical cost of these assets. This is a departure from accounting principles generally accepted in the United States of America and the effects on the financial statements can not be reasonably determined.

In our opinion, except for the departure described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Kitchigami Regional Library as of December 31, 2005, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2005, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The management's discussion and analysis (MD&A) and budgetary comparison information, as listed in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Mathias C. Justin, Ltd.
Certified Public Accountants

Pequot Lakes, Minnesota
April 26, 2006

REQUIRED SUPPLEMENTARY INFORMATION

**KITCHIGAMI REGIONAL LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Using this Annual Report

- This annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library:
- The first column of the financial statements includes information on the Library's General fund under the modified accrual method. These *Fund Financial Statements* focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.
- The *government-wide financial statement* columns provide both *long-term* and *short-term* information about the Library's *overall* financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short-term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

The table below presents key financial information in a condensed format.

	DECEMBER 31,	
	2005	2004
Current Assets	1,108,253	\$ 1,027,147
Capital Assets (Net)	3,352,473	3,530,173
Restricted Assets	972,273	870,741
Total Assets	5,432,999	5,428,061
Long-Term Debt	172,496	212,742
Other Liabilities	129,795	104,989
Total Liabilities	302,291	317,731
Net Assets		
Invested in Capital Assets, Net of Debt	3,220,044	3,359,905
Restricted	876,473	877,196
Unrestricted	1,034,191	873,229
Total Net Assets	\$ 5,130,708	\$ 5,110,330
Revenue		
State	573,017	\$ 526,625
Local	1,239,598	1,152,754
Other	169,736	380,246
Total Revenue	1,982,351	2,059,625
Expenses - Library Services	1,961,976	1,914,354
CHANGE IN NET ASSETS	\$ 20,375	\$ 145,271

**KITCHIGAMI REGIONAL LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Library as a Whole

- Kitchigami Regional Library's net assets increased by \$20,375 this year to \$5,130,705 compared to \$5,110,330 in 2004. The primary reason for the increase was an excess of state revenue over approved expenditures on special projects such as revision of the Library's joint powers agreement and the addition of Regional Library Telecommunications aid to state revenue. The offsetting bill of \$15,913 is recorded as an account payable as of December 31, 2005.
- The Library's primary source of revenue was city and county levies, which represent 62.5% of total revenue compared to 57.8% last year. State basic, telecommunications, and special grants represent 31% of total revenue.
- Employee costs, which represent 71% of the Library's expenses, increased to \$1,186,915 from \$1,181,190 in 2004.
- Depreciation, including the Library Materials, was the second largest expense category; at \$450,460, it is 23% of the expenses. Prior to 2004, this amount was not recorded in our financial statements and represents, with the capital outlays, the primary reason for the increase in expenses.
- The operational expenditures supported circulation of 749,379 items in 2005, 37,195 items were loaned branch to branch, and 2,683 interlibrary loan items were borrowed. At the end of 2005, the library's collections contained 291,515 items.

The Library's Funds

Changes to Kitchigami Regional Library's fund are reported on pages 6 and 7 of these statements. The Library's Board of Directors has the ability to create separate funds to help manage money for specific purposes. The restricted funds established for specific purposes are analyzed in Note 6 to these statements. The Mobile Library's reserve was reduced by the cost of the new mobile library. Changes in the Automation Maintenance Reserve represent adjustments to include all equipment covered by the reserve.

Library Budgetary Highlights

Over the course of 2005, the Library's Board amended the budget to take into account events that occurred during the year.

The significant changes in revenues were:

- An additional payment to our State Regional Library Basic System Support resulting from adjustments in the state's payment schedule.
- There was an increase in interest income.

**KITCHIGAMI REGIONAL LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Library Budgetary Highlights (Continued)

The significant changes in expenditures were:

- Increase expenditure on books, magazines, and other library materials.
- Consulting costs for the revision of the joint powers agreement.
- Establishment of an “on-demand” selection program to respond to public material requests.
- Higher vehicle library costs for the implementation of the new vehicle offset in part by the lower personnel costs due to the vehicle accident in November 2005.

Capital Assets and Debt

At the end of 2005, Kitchigami Regional Library had a net investment of \$3,352,473 invested in property, its headquarters building, furniture and equipment, and vehicles and library materials.

Kitchigami Regional Library added \$239,422 in new collection items consisting of new books, CD's, books on tape, DVD's, and videos; \$6,654 was carried over from the 2004 allocation. Included in the total Library Materials expenditure are \$64,032 in books and other materials purchased with gifts and memorial donations; \$34,509 was carried over from donations made in 2004. All materials purchased with donated funds are housed in the branch library that received the donations.

Kitchigami Regional Library has very little debt. This year, our lease purchase obligation to Cass County was decreased by \$37,838 to a total of \$132,430. This balance was paid off in January 2006. Compensated absences totaling \$40,067 for unused vacation leave is the only other long-term debt.

BASIC FINANCIAL STATEMENTS

**KITCHIGAMI REGIONAL LIBRARY
GOVERNMENTAL FUND BALANCE SHEET/
STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

ASSETS	GENERAL FUND MODIFIED ACCRUAL BASIS	ADJUSTMENTS	STATEMENT OF NET ASSETS
Current Assets			
Cash and Cash Equivalents	\$ 1,187,494	\$ -	\$ 1,187,494
Prepaid Expenses	15,836	-	15,836
Total Current Assets	<u>1,203,330</u>	<u>-</u>	<u>1,203,330</u>
Fixed Assets			
Land	-	34,566	34,566
Building and Improvements	-	603,005	603,005
Vehicles	-	270,764	270,764
Furniture, Fixtures, and Equipment	-	375,080	375,080
Library Books and Materials	-	5,672,410	5,672,410
Total Fixed Assets	<u>-</u>	<u>6,955,825</u>	<u>6,955,825</u>
Less Accumulated Depreciation	-	3,603,352	3,603,352
Net Fixed Assets	<u>-</u>	<u>3,352,473</u>	<u>3,352,473</u>
Restricted Assets			
Cash and Cash Equivalents	805,104	-	805,104
Minnesota Library Foundation - Endowment	72,092	-	72,092
Total Restricted Assets	<u>877,196</u>	<u>-</u>	<u>877,196</u>
Total Assets	<u>\$ 2,080,526</u>	<u>\$ 3,352,473</u>	<u>\$ 5,432,999</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 46,037	\$ -	\$ 46,037
Accounts Payable - Staff	485	-	485
Accrual Payroll	82,950	-	82,950
Sales Tax Payroll	323	-	323
Accrued Compensated Absences	-	40,067	40,067
Capital Lease Payable - Current Portion	-	37,838	37,838
Total Current Liabilities	<u>129,795</u>	<u>77,905</u>	<u>207,700</u>
Long-Term Debt			
Capital Lease Payable	-	94,591	94,591
Total Liabilities	<u>129,795</u>	<u>172,496</u>	<u>302,291</u>
FUND BALANCE/NET ASSETS			
Fund Balance			
Unreserved			
Designated for Capital Improvements	914,378	(914,378)	-
Undesignated	1,036,353	(1,036,353)	-
Total Fund Balance	<u>1,950,731</u>	<u>(1,950,731)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 2,080,526</u>		
Net Assets			
Investment in Capital Assets, Net of Related Debt		3,220,044	3,220,044
Restricted by Board		876,473	877,196
Unrestricted		1,034,191	1,033,468
Total Net Assets		<u>\$ 5,130,708</u>	<u>\$ 5,130,708</u>

**KITCHIGAMI REGIONAL LIBRARY
STATEMENT OF GOVERNMENTAL REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE/
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2005**

	GENERAL FUND MODIFIED ACCRUAL BASIS	ADJUSTMENTS	STATEMENT OF NET ASSETS
REVENUES			
State Aid	\$ 573,017	\$ -	\$ 573,017
Local	1,239,598	-	1,239,598
Interest, Dividends, and Investments	49,674	-	49,674
Sales	7,136	-	7,136
Automation	33,954	-	33,954
Donations/Refunds/Miscellaneous	78,972	-	78,972
Total Revenues	<u>1,982,351</u>	<u>-</u>	<u>1,982,351</u>
EXPENDITURES			
Salaries			
Branch	571,616	-	571,616
Regional	386,103	-	386,103
Mobile Library	34,777	-	34,777
Employee Benefits	196,825	(2,406)	194,419
Library Operations	175,796	-	175,796
Building	30,811	-	30,811
Vehicle	40,963	-	40,963
Library Materials	16,426	-	16,426
Board	29,736	-	29,736
Miscellaneous	30,869	-	30,869
Capital Outlay	272,759	(272,759)	-
Depreciation	-	450,460	450,460
Debt Service			
Principal	37,838	(37,838)	-
Total Expenditures	<u>1,824,519</u>	<u>137,457</u>	<u>1,961,976</u>
EXCESS (DEFICIT) OF REVENUE OVER EXPENDITURES/CHANGES IN NET ASSETS	157,832	(137,457)	20,375
Fund Balance/Net Assets - Beginning of Year	<u>1,792,899</u>	<u>3,317,431</u>	<u>5,110,330</u>
FUND BALANCE/NET ASSETS - END OF YEAR	<u>\$ 1,950,731</u>	<u>\$ 3,179,974</u>	<u>\$ 5,130,705</u>

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005**

NOTE 1 NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Kitchigami Regional Library, a Minnesota Municipal Corporation, is an autonomous governmental unit, created by contractual agreement with various authorities that provides library services in Beltrami, Cass, Crow Wing, Hubbard, and Wadena counties. Funding is obtained from these counties and various cities located within these counties as detailed in the schedule of local intergovernmental revenue. Revenues are also received by grants in aid from the State of Minnesota and the federal government.

The accounting policies of Kitchigami Regional Library (the Library) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. The Library adopted this Statement in 2004. Certain significant changes in the Statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the Library’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Library’s activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

A. Reporting Entity

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

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

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

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005**

NOTE 1 NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Government-wide Financial Statements (Continued)

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

C. Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenue to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The Library reports the following major governmental fund:

The *General Fund* is the Library's primary operating fund. It accounts for all financial resources of the Library, except those required to be accounting for in another fund.

D. Financial Statement Amounts

Bank Deposits and Investments – The Library has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investment with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

All trade receivables are shown net of an allowance for uncollectible amounts.

Capital Assets – Capital assets are defined by the Library as assets with an initial cost of more than \$250 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005**

NOTE 1 NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Financial Statement Amounts (Continued)

Capital Assets (Continued)

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20-40 years
Furniture and Equipment	5-8 years
Improvements	20 years
Library Books and Materials	15 years

E. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts and disclosures in the financial statements. Actual results could differ from those estimates.

F. Compensated Absences

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

All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund – General Fund only for employee terminations as of year end.

G. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities statement of net assets. The face amount of debt issued is reported as other financing sources.

H. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subject to change.

NOTE 2 DEPOSITS AND INVESTMENTS

A. Deposits

The Library maintains a cash and investment pool. An indication of the level of custodial credit risk assumed by the Library at year-end is categorized as follows for the Library's cash and investments:

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

In accordance with applicable Minnesota Statutes, the Library maintains deposits at depository banks authorized by the Library's Board.

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

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

Deposit balances at December 31, 2005, are as follows:

	BANK BALANCE	CARRYING AMOUNT
Insured or Collateralized by Securities Held by the Library or its Agent in the Library's Name.	\$ 2,004,284	\$ 1,992,545

At December 31, 2005, all deposits were insured or collateralized by securities held by the Library's agent in the Library's Name as follows:

	PINE RIVER STATE BANK	1ST NATIONAL BANK WALKER	1ST FEDERAL BANK DEERWOOD	TOTAL
Bank Balance	\$ 1,635,837	\$ 352,136	\$ 16,311	\$ 2,004,284
Collateral	\$ 1,250,000	\$ 300,000	\$ -	\$ 1,550,000
FDIC Insurance	100,000	100,000	100,000	300,000
Total Collateral and Insurance	\$ 1,350,000	\$ 400,000	\$ 100,000	\$ 1,850,000

The Library was also under collateralized at the Pine River State Bank as of December 31, 2005.

Following is the change in cash balances during 2005:

DESCRIPTION	DECEMBER 31, 2004	NET INCREASE	NET DECREASE	DECEMBER 31, 2005
Petty Cash	\$ 53	\$ -	\$ -	\$ 53
Checking	49,594	183,644	-	233,238
Money Market and Certificates of Deposit	1,753,040	6,267	-	1,759,307
Total	\$ 1,802,687	\$ 189,911	\$ -	\$ 1,992,598

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

The Library had no invested funds during the year.

NOTE 3 FIXED ASSETS

A summary of changes in Fixed Assets is as follows:

	DECEMBER 31, 2004	INCREASE	DECREASE	DECEMBER 31, 2005
Assets Not Being Depreciated				
Land	\$ 34,566	\$ -	\$ -	\$ 34,566
Assets Being Depreciated				
Buildings and Improvements	603,005	-	-	603,005
Vehicles	270,764	-	-	270,764
Furniture, Fixtures, and Equipment	341,742	33,338	-	375,080
Books and Materials	5,943,690	239,422	510,702	5,672,410
Total Fixed Assets	<u>7,193,767</u>	<u>272,760</u>	<u>510,702</u>	<u>6,955,825</u>
Less: Accumulated Depreciation				
Buildings and Improvements	114,044	14,373	-	128,417
Vehicles	80,206	21,411	-	101,617
Furniture and Fixtures	135,792	44,323	-	180,115
Books and Materials	3,333,552	370,353	510,702	3,193,203
Total Accumulated Depreciation	<u>3,663,594</u>	<u>450,460</u>	<u>510,702</u>	<u>3,603,352</u>
Net Book Value	<u>\$ 3,530,173</u>	<u>\$ (177,700)</u>	<u>\$ -</u>	<u>\$ 3,352,473</u>

NOTE 4 LONG-TERM DEBT

A. Capital Lease Payable

In 1999, the Library entered into an interest free lease agreement with Cass County for the Library's newly constructed headquarters building located in Pine River, Minnesota. In accordance with the lease agreement, the Library paid Cass County \$200,000 in 1999. Beginning June 1, 2000, the Library is required to make quarterly lease payments to the County through June 1, 2009, at which time the building will become the property of the Kitchigami Regional Library upon payment of \$100. The schedule of future lease payments is as follows:

2006	\$ 37,838
2007	37,838
2008	37,838
2009	18,916
Total	<u>\$ 132,430</u>

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005**

NOTE 4 LONG-TERM DEBT (CONTINUED)

A. Capital Lease Payable (Continued)

This lease agreement is a capital lease and accordingly, the land and buildings and corresponding lease obligation are recorded on these financial statements. In January 2006, the balance of the lease obligation of \$132,430 was paid in full.

B. Changes in Long-Term Debt

	DECEMBER 31, 2004	INCREASE	DECREASE	DECEMBER 31, 2005
Lease Purchase Obligation	\$ 170,268	\$ -	\$ 37,838	\$ 132,430
Compensated Absences	42,474	-	2,407	40,067
Total Long-Term Debt and Other Long-Term Liabilities	<u>\$ 212,742</u>	<u>\$ -</u>	<u>\$ 40,245</u>	<u>\$ 172,497</u>

Compensated absences represent the estimated liability to be paid to employees under the Library's vacation pay policy. Under the Library's policy, employees earn vacation time based on time of service with the Library.

No interest was paid or accrued during 2005.

NOTE 5 OTHER ASSETS – ENDOWMENT FUND

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

NOTE 6 RESTRICTED FUNDS

Restricted funds are established by the Board for specific purposes. Following is a list of restricted funds and balances at December 31, 2005, with comparative actual amounts for 2004:

	2005	2004
Automation	\$ 269,563	\$ 262,995
Mobile Library	75,280	84,681
Vehicle	95,923	88,462
Automation Maintenance	136,197	137,952
Loan Security (Pine River Loan)	23,423	23,423
Building Maintenance	18,837	18,147
Accounting System	23,790	23,587
Library Building	175,289	170,300
KRL Endowment Fund	57,894	67,372
Headquarters' Gift	277	277
	<u>\$ 876,473</u>	<u>\$ 877,196</u>

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005**

NOTE 6 RESTRICTED FUNDS (CONTINUED)

Following is a schedule of the automation repair and maintenance which allocates the reserve and the annual interest earned to each branch for 2005 and 2004:

BRANCH	DECEMBER 31, 2005		DECEMBER 31, 2004	
	ANNUAL INTEREST EARNED	BALANCE INCLUDING INTEREST	ANNUAL INTEREST EARNED	BALANCE INCLUDING INTEREST
Bemidji	\$ 195	\$ 17,346	\$ 74	\$ 17,441
Blackduck	96	8,566	33	7,762
Brainerd	274	24,460	119	28,211
Cass Lake	36	3,233	9	2,215
Kitchigami Regional Library	312	27,819	144	34,173
Longville	102	9,058	32	7,638
Park Rapids	106	9,490	38	8,952
Pine River	98	8,765	3	7,170
Wadena	213	18,971	70	16,567
Walker	95	8,489	34	7,823
Total	<u>\$ 1,527</u>	<u>\$ 136,197</u>	<u>\$ 556</u>	<u>\$ 137,952</u>

NOTE 7 STEWARDSHIP AND ACCOUNTABILITY

Excess of Expenditures Over Budget

Expenditures exceeded the budgeted amounts in the General Fund by \$56,325. These overages were considered by Library management to be the result of necessary expenditures critical to operations, which were approved by the Board.

NOTE 8 RISK MANAGEMENT

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

The Library books and materials are reported in the financial statements at estimated cost. However, the Library has these assets insured for approximately \$9,200,000. There has been no reduction in insurance coverage from the previous year in any of the Library's policies.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005**

NOTE 9 RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Library's governmental fund differs from net assets and changes in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified Accrual Basis	\$ 1,950,731
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources, and are not reported in the funds	3,352,473
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(132,429)
Compensated absences are included as a liability	<u>(40,067)</u>
Net Assets of General Fund - Full Accrual Basis	<u><u>\$ 5,130,708</u></u>
Net Change (Reduction) in Fund Balance - Modified Accrual Basis	\$ 157,832
Amounts reported in the statement of activities are different because:	
Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are expensed over their estimated useful lives as depreciation:	
Capital Outlay	272,759
Depreciation	(450,460)
Decrease in the accrual for long-term compensated absences reported as a reduction of expenditures in the statement of activities, but not in the fund statements	2,406
Payments of capital lease payable are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)	<u>37,838</u>
Change in Net Assets of General Fund - Full Accrual Basis	<u><u>\$ 20,375</u></u>

NOTE 10 DEFINED BENEFIT PENSION PLAN – STATEWIDE

Plan Description

All full-time and certain part-time employees of the Kitchigami Regional Library covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005**

NOTE 10 DEFINED BENEFIT PENSION PLAN – STATEWIDE (CONTINUED)

Plan Description (Continued)

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERF's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088, or by calling (651) 296-7460 or 1-800-652-9026.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005**

NOTE 10 DEFINED BENEFIT PENSION PLAN – STATEWIDE (CONTINUED)

Plan Description (Continued)

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The Library makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 5.10%, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan will increase in 2006 to 5.5%. The Library is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 5.53% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan will increase to 6.0% and 10.5% respectively, effective January 1, 2006. The Library's contributions to the Public Employees Retirement Fund for the years ending December 31, 2005, 2004, and 2003, were \$53,133, \$52,795, and \$51,365, respectively. The Library's contributions were equal to contractually required contributions for each year as set by state statute.

SUPPLEMENTARY INFORMATION SECTION

**KITCHIGAMI REGIONAL LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2005**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL BALANCE	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				
Intergovernmental				
State	\$ 458,738	\$ 458,738	\$ 573,017	\$ 114,279
Local	1,239,979	1,239,979	1,239,598	(381)
Interest, Dividends, and Investments	30,700	30,700	49,674	18,974
Sales	2,000	2,000	7,136	5,136
Automation	52,000	52,000	33,954	(18,046)
Donations/Refunds/Miscellaneous	-	-	78,972	78,972
Total Revenues	<u>1,783,417</u>	<u>1,783,417</u>	<u>1,982,351</u>	<u>198,934</u>
EXPENDITURES				
Salaries				
Branch Library	565,364	565,364	571,616	(6,252)
Regional	414,345	414,345	386,103	28,242
Mobile Library	46,456	46,456	34,777	11,679
Employee Benefits	225,993	225,993	196,825	29,168
Library Operations	177,138	177,138	175,796	1,342
Building	31,950	31,950	30,811	1,139
Vehicle	36,708	36,708	40,963	(4,255)
Library Materials	14,990	14,990	16,426	(1,436)
Board	15,950	15,950	29,736	(13,786)
Miscellaneous	33,600	33,600	30,869	2,731
Capital Outlay	167,700	167,700	272,759	(105,059)
Debt Service	38,000	38,000	37,838	162
Total Expenditures	<u>1,768,194</u>	<u>1,768,194</u>	<u>1,824,519</u>	<u>(56,325)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>15,223</u>	<u>15,223</u>	<u>157,832</u>	<u>142,609</u>
Fund Balance - Beginning of Year	<u>1,792,899</u>	<u>1,792,899</u>	<u>1,792,899</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 1,808,122</u></u>	<u><u>\$ 1,808,122</u></u>	<u><u>\$ 1,950,731</u></u>	<u><u>\$ 142,609</u></u>

**KITCHIGAMI REGIONAL LIBRARY
 DETAILED REVENUE AND EXPENSE SCHEDULE
 YEAR ENDED DECEMBER 31, 2005
 (WITH COMPARATIVE ACTUAL AMOUNTS YEAR ENDED DECEMBER 31, 2004)**

	2005	2004
INTERGOVERNMENTAL AND LOCAL REVENUE		
State		
State Aid	\$ 455,617	\$ 449,068
Special/Grants	117,400	77,558
Total State	573,017	526,626
County		
Crow Wing	431,756	394,370
Cass	262,856	243,059
Hubbard	160,224	152,208
Beltrami	117,481	108,030
Wadena	43,022	37,271
Total County	1,015,339	934,938
City		
Brainerd	66,751	66,000
Bemidji	64,934	62,434
Wadena	31,200	30,000
Park Rapids	25,598	24,613
Walker	9,591	9,591
Pine River	9,236	8,881
Blackduck	6,260	6,019
Longville	5,834	5,610
Cass Lake	4,855	4,668
Total City	224,259	217,816
Total Intergovernmental and Local Revenue	1,812,615	1,679,380
OTHER REVENUE		
Interest on Savings	44,317	38,624
Endowment Investment Income	5,357	7,374
Automation	33,954	48,042
Sales		
Photo Copies	5,286	5,416
Faxes	1,850	1,813
NCAP Refund	-	194,275
Miscellaneous Gifts and Other	78,972	84,701
Total Other Revenue	169,736	380,245
Total Revenues	\$ 1,982,351	\$ 2,059,625

**KITCHIGAMI REGIONAL LIBRARY
 DETAILED REVENUE AND EXPENSE SCHEDULE
 YEAR ENDED DECEMBER 31, 2005
 (WITH COMPARATIVE ACTUAL AMOUNTS YEAR ENDED DECEMBER 31, 2004)**

	2005	2004
EXPENSES		
Library Materials		
Periodicals and Papers	\$ 16,426	\$ 16,184
Total Library Materials	16,426	16,184
Library Operations		
Automation Operating Costs	100,985	100,607
Communications/Dataline/Fax	19,154	15,381
Postage	9,520	13,539
Library Supplies	23,382	14,814
Office Supplies	2,418	7,550
OCLC Expense	14,100	11,483
Summer Reading Program	1,814	119
Photocopy Supplies	3,399	2,592
Computer and Fax Supplies	1,024	1,283
Total Library	175,796	167,368
Vehicle		
Auto/Mobile Library/Readmobile Gas and Oil	15,722	12,967
Auto/Mobile Library/Readmobile Repairs	18,624	5,571
Auto/Mobile Library Insurance	6,617	7,163
Total Vehicle	40,963	25,701
Building		
Insurance - Contents and Liability	16,621	16,365
Repairs and Maintenance	7,975	2,228
Electric	3,180	2,583
Gas	1,582	1,257
Sanitation/Disposal	855	772
Sewer	433	418
Water	165	125
Total Building	30,811	23,748
Board		
Meetings	6,918	6,464
Professional Fees and Dues	19,793	31,454
Insurance	3,025	2,529
Total Board	29,736	40,447
Branch Salaries		
Bemidji	174,312	174,874
Brainerd	154,134	173,159
Park Rapids	72,151	68,675
Wadena	51,552	53,587

**KITCHIGAMI REGIONAL LIBRARY
REVENUE AND EXPENSE SCHEDULE
YEAR ENDED DECEMBER 31, 2005
(WITH COMPARATIVE ACTUAL AMOUNTS YEAR ENDED DECEMBER 31, 2004)**

	<u>2005</u>	<u>2004</u>
EXPENSES (CONTINUED)		
Branch Salaries (Continued)		
Pine River	27,666	30,396
Walker	22,689	25,588
Longville	25,941	25,306
Blackduck	25,593	25,165
Cass Lake	17,578	19,087
Total Branch Salaries	<u>571,616</u>	<u>595,837</u>
Regional Salaries		
System Support	146,983	124,378
Technical Services	125,177	115,722
Interlibrary Loan	95,379	92,411
Delivery	18,564	17,836
Total Regional Salaries	<u>386,103</u>	<u>350,347</u>
Mobile Library Salaries	<u>34,777</u>	<u>42,206</u>
Employee Benefits		
FICA	79,375	79,633
Health Insurance	44,864	46,363
PERA	53,133	52,975
Worker's Compensation	9,822	8,061
Staff Development/Conferences/Other	4,260	3,203
Unemployment	2,965	2,565
Total Employee Benefits	<u>194,419</u>	<u>192,800</u>
Miscellaneous		
Travel	2,041	3,904
Investment Fees	637	655
Recruiting	3,264	3,924
Other	24,924	6,102
Total Miscellaneous	<u>30,866</u>	<u>14,585</u>
Depreciation		
Books and Materials	370,353	394,790
Buildings and Equipment	80,107	50,341
Total Depreciation	<u>450,460</u>	<u>445,131</u>
Total Expenses	<u>\$ 1,961,973</u>	<u>\$ 1,914,354</u>

OTHER REPORTS SECTION

MATHIAS C. JUSTIN, LTD.
Certified Public Accountants

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Minnesota Society of
Certified Public Accountants

AUDITOR'S REPORT ON LEGAL COMPLIANCE

To the Board of Directors
Kitchigami Regional Library
Pine River, Minnesota


We have audited the financial statements of the Kitchigami Regional Library as of and for the year ended December 31, 2005, and have issued our report thereon dated April 26, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers five main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories.

The results of our tests indicate that for the items tested the Kitchigami Regional Library complied with the material terms and conditions of applicable legal provisions except that the Library was under collateralized on December 31, 2005.

This report is intended solely for the use of the Audit Committee, Board of Directors, management, and state and federal grantor agencies and should not be used by anyone other than those specified parties.



Mathias C. Justin, Ltd.
Certified Public Accountants

Pequot Lakes, Minnesota
April 26, 2006