

KITCHIGAMI REGIONAL LIBRARY

FINANCIAL STATEMENTS

DECEMBER 31, 2006

KITCHIGAMI REGIONAL LIBRARY

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INTRODUCTORY SECTION

**KITCHIGAMI REGIONAL LIBRARY
OFFICIAL DIRECTORY
DECEMBER 31, 2006**

| POSITION | NAME |
|-----------------|-------------|
|-----------------|-------------|

OFFICIALS

| | | |
|----------------|------------------|-----------------|
| President | City of Wadena | Paul Carlson |
| Vice President | City of Brainerd | Thomas Peterson |
| Secretary | Cass County | Dee Hillstrom |
| Treasurer | Hubbard County | Rita Schuldt |
| Director | | Marian Ridge |

DIRECTORS

| | | | |
|---|------------------|---------------------|---------------------|
| Jack Frost (County Commissioner) | Beltrami County | Betty Hanson-Lehman | City of Bemidji |
| Marilyn Heltzer | Beltrami County | Leo Johnson | City of Blackduck |
| Bob Kangas (County Commissioner) | Cass County | No Representative | City of Cass Lake |
| Rachel Reabe Nystrom (County Commissioner) | Crow Wing County | Lauren Annie Rowe | City of Longville |
| Anne Holub | Crow Wing County | Carolyn Conklin | City of Park Rapids |
| Lyle Robinson (County Commissioner) | Hubbard County | Roine Cunningham | City of Pine River |
| Mary Harrison (County Commissioner) | Wadena County | Paul Carlson | City of Wadena |
| Marci Olson | Wadena County | Mary Beth Mohr | City of Walker |

FINANCIAL SECTION

MATHIAS C. JUSTIN, LTD.
Certified Public Accountants

Mick Justin, CPA
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Member:
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, 2006, 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, 2006, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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.

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, 2006, 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.



Mathias C. Justin, Ltd.
Certified Public Accountants

Pequot Lakes, Minnesota
April 23, 2007

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, | |
|---|---------------------|---------------------|
| | 2006 | 2005 |
| Current Assets | \$ 1,118,735 | \$ 1,108,253 |
| Capital Assets (Net) | 3,203,441 | 3,352,473 |
| Restricted Assets | 1,120,175 | 972,273 |
| Total Assets | <u>5,442,351</u> | <u>5,432,999</u> |
| Long-Term Debt | 42,277 | 172,496 |
| Other Liabilities | 98,399 | 129,795 |
| Total Liabilities | <u>140,676</u> | <u>302,291</u> |
| Net Assets | | |
| Invested in Capital Assets, Net of Debt | 3,203,441 | 3,220,044 |
| Restricted by Board | 959,849 | 876,473 |
| Unrestricted | 1,138,385 | 1,034,191 |
| Total Net Assets | <u>\$ 5,301,675</u> | <u>\$ 5,130,708</u> |
| Revenue | | |
| State | 488,508 | 573,017 |
| Local | 1,510,752 | 1,239,598 |
| Other | 229,963 | 169,736 |
| Total Revenue | <u>2,229,223</u> | <u>1,982,351</u> |
| Expenses - Library Services | <u>2,058,253</u> | <u>1,961,976</u> |
| CHANGE IN NET ASSETS | <u>\$ 170,970</u> | <u>\$ 20,375</u> |

KITCHIGAMI REGIONAL LIBRARY MANAGEMENT'S DISCUSSION AND ANALYSIS

The Library as a Whole

- Kitchigami Regional Library's net assets increased by \$170,970 this year to \$5,301,675 compared to \$5,130,075 in 2005. The primary reason for the increase was an excess of state revenue over approved expenditures on special projects and revision of our local levy practice.
- The Library's primary source of revenue was city and county levies, which represent 68% of total revenue compared to 63% last year. State basic, telecommunications, and special grants represent 21% of total revenue.
- Employee costs, which represent 62% of the Library's expenses, increased to \$1,282,654 from \$1,186,915 in 2005.
- Depreciation, including the Library Materials, was the second largest expense category; at \$466,550, 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 769,498 items in 2006 and 8,574 interlibrary loan items were borrowed and loaned. At the end of 2006, the library's collections contained 296,085 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. Changes in the Automation Maintenance Reserve represent adjustments to include all equipment covered by the reserve.

The Library Budgetary Highlights

Over the course of 2006, the Library's Board amended the budget to take into account events that occurred during the year.

The significant changes in revenues were:

- An adjustment to the budget practice for city and county levies to link direct local costs with local revenue.
- Interest income increased significantly.
- Federal LSTA grants, including our seniors' survey, totaled \$29,000.
- Gates Technology grants of \$24,786 contributed more public computers to our local libraries.

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

The Library Budgetary Highlights (Continued)

The significant changes in expenditures were:

- Decreased telecommunications costs due to federal e-rate for voice lines.
- Increased expenditure on books, magazines, and other library materials.
- Increased interlibrary loan activity and costs due to joining MNLINK as a gateway library in June 2006
- The costs for mobile library service were unpredictable due to the accident in November 2005. The repaired vehicle was not operational until October 2006.

Capital Assets and Debt

At the end of 2006, the Library had a net investment of \$3,203,441 invested in property, its headquarters building, furniture and equipment, and vehicles and library materials.

The Library added \$274,437 in new collection items, including 3,875 items purchased with gift funds and 8,399 items from the Kitchigami Regional Library's budget. \$21,294 was carried over from the 2005 budget. At the end of 2006, \$21,168 of the Library's funds were carried forward into 2007; \$34,691 in gift funds were carried forward into 2007. All materials purchased with donated funds are housed in the branch library that received the donations.

The Library has very little debt. Our lease purchase obligation to Cass County of \$132,429 was paid off in January 2006. Compensated absences totaling \$42,277 for unused vacation leave is the only other long-term debt. Our obligation for long-term sick leave is not covered by a designated reserve.

BASIC FINANCIAL STATEMENTS

**KITCHIGAMI REGIONAL LIBRARY
GOVERNMENTAL FUND BALANCE SHEET/
STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

| ASSETS | GENERAL FUND MODIFIED ACCRUAL BASIS | ADJUSTMENTS | STATEMENT OF NET ASSETS |
|---|---|---------------------|----------------------------|
| Current Assets | | | |
| Cash and Cash Equivalents | \$ 1,094,016 | \$ - | \$ 1,094,016 |
| Accounts Receivable - Other | 1,614 | - | 1,614 |
| Prepaid Expenses | 23,105 | - | 23,105 |
| Total Current Assets | <u>1,118,735</u> | <u>-</u> | <u>1,118,735</u> |
| Fixed Assets | | | |
| Land | - | 34,566 | 34,566 |
| Building and Improvements | - | 603,005 | 603,005 |
| Vehicles | - | 270,764 | 270,764 |
| Furniture, Fixtures, and Equipment | - | 418,161 | 418,161 |
| Library Books and Materials | - | 5,710,128 | 5,710,128 |
| Total Fixed Assets | <u>-</u> | <u>7,036,624</u> | <u>7,036,624</u> |
| Less Accumulated Depreciation | - | 3,833,183 | 3,833,183 |
| Net Fixed Assets | <u>-</u> | <u>3,203,441</u> | <u>3,203,441</u> |
| Restricted Assets | | | |
| Cash and Cash Equivalents | 1,039,811 | - | 1,039,811 |
| Minnesota Library Foundation - Endowment | 80,364 | - | 80,364 |
| Total Restricted Assets | <u>1,120,175</u> | <u>-</u> | <u>1,120,175</u> |
| Total Assets | <u>\$ 2,238,910</u> | <u>\$ 3,203,441</u> | <u>\$ 5,442,351</u> |
| | | | |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Accounts Payable | \$ 13,270 | \$ - | \$ 13,270 |
| Payroll Tax Payable | 915 | - | 915 |
| Accrual Payroll | 83,781 | - | 83,781 |
| Sales Tax Payable | 433 | - | 433 |
| Accrued Compensated Absences | - | 42,277 | 42,277 |
| Total Current Liabilities | <u>98,399</u> | <u>42,277</u> | <u>140,676</u> |
| Total Liabilities | <u>98,399</u> | <u>42,277</u> | <u>140,676</u> |
| | | | |
| FUND BALANCE/NET ASSETS | | | |
| Fund Balance | | | |
| Unreserved | | | |
| Designated for Capital Improvements | 1,039,811 | (1,039,811) | - |
| Undesignated | 1,100,700 | (1,100,700) | - |
| Total Fund Balance | <u>2,140,511</u> | <u>(2,140,511)</u> | <u>-</u> |
| Total Liabilities and Fund Balance | <u>\$ 2,238,910</u> | | |
| Net Assets | | | |
| Investment in Capital Assets, Net of Related Debt | | 3,203,441 | 3,203,441 |
| Restricted by Board | | 959,849 | 959,849 |
| Unrestricted | | <u>1,138,385</u> | <u>1,138,385</u> |
| Total Net Assets | | <u>\$ 5,301,675</u> | <u>\$ 5,301,675</u> |

**KITCHIGAMI REGIONAL LIBRARY
STATEMENT OF GOVERNMENTAL REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE/
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2006**

| | GENERAL FUND MODIFIED ACCRUAL BASIS | ADJUSTMENTS | STATEMENT OF NET ASSETS |
|--|---|----------------------------|----------------------------|
| REVENUES | | | |
| State Aid | \$ 488,508 | \$ - | \$ 488,508 |
| Local | 1,510,752 | - | 1,510,752 |
| Interest, Dividends, and Investments | 71,997 | - | 71,997 |
| Sales | 9,292 | - | 9,292 |
| Automation | 27,097 | - | 27,097 |
| Donations/Refunds/Miscellaneous | 121,577 | - | 121,577 |
| Total Revenues | <u>2,229,223</u> | <u>-</u> | <u>2,229,223</u> |
| EXPENDITURES | | | |
| Salaries | | | |
| Branch | 673,166 | - | 673,166 |
| Regional | 340,343 | - | 340,343 |
| Mobile Library | 45,122 | - | 45,122 |
| Employee Benefits | 221,813 | 2,210 | 224,023 |
| Library Operations | 173,115 | - | 173,115 |
| Building | 22,668 | - | 22,668 |
| Vehicle | 37,021 | - | 37,021 |
| Library Materials | 22,014 | - | 22,014 |
| Board | 37,607 | - | 37,607 |
| Miscellaneous | 16,627 | - | 16,627 |
| Capital Outlay | 317,518 | (317,518) | - |
| Depreciation | - | 466,547 | 466,547 |
| Debt Service | | | |
| Principal | 132,429 | (132,429) | - |
| Total Expenditures | <u>2,039,443</u> | <u>18,810</u> | <u>2,058,253</u> |
| EXCESS (DEFICIT) OF REVENUE OVER EXPENDITURES/CHANGES IN NET ASSETS | 189,780 | (18,810) | 170,970 |
| Fund Balance/Net Assets - Beginning of Year | <u>1,950,731</u> | <u>3,179,974</u> | <u>5,130,705</u> |
| FUND BALANCE/NET ASSETS - END OF YEAR | <u>\$ 2,140,511</u> | <u>\$ 3,161,164</u> | <u>\$ 5,301,675</u> |

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

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, 2006**

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, 2006**

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, 2006**

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, 2006, are as follows:

| | BANK BALANCE | CARRYING AMOUNT |
|---|-----------------|--------------------|
| Insured or Collateralized by Securities Held by the Library or its Agent in the Library's Name. | \$ 2,144,273 | \$ 2,133,827 |

At December 31, 2006, 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 | \$ 1,749,427 | \$ 367,802 | \$ 16,598 | \$ 2,133,827 |
| Collateral | \$ 1,350,000 | \$ 300,000 | \$ - | \$ 1,650,000 |
| FDIC Insurance | 100,000 | 100,000 | 100,000 | 300,000 |
| Total Collateral and Insurance | \$ 1,450,000 | \$ 400,000 | \$ 100,000 | \$ 1,950,000 |

The Library was also under collateralized at the Pine River State Bank as of December 31, 2006.

Following is the change in cash balances during 2006:

| DESCRIPTION | DECEMBER 31, 2005 | NET INCREASE | NET DECREASE | DECEMBER 31, 2006 |
|---|----------------------|-----------------|-----------------|----------------------|
| Petty Cash | \$ 53 | \$ - | \$ 53 | \$ - |
| Checking | 233,238 | - | 185,788 | 47,450 |
| Money Market and Certificates of Deposit | 1,759,307 | 327,070 | - | 2,086,377 |
| Total | \$ 1,992,598 | \$ 327,070 | \$ 185,841 | \$ 2,133,827 |

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

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, 2005 | INCREASE | DECREASE | DECEMBER 31, 2006 |
|------------------------------------|----------------------|---------------------|----------------|----------------------|
| 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 | 375,080 | 43,081 | - | 418,161 |
| Books and Materials | 5,672,410 | 274,437 | 236,719 | 5,710,128 |
| Total Fixed Assets | <u>6,955,825</u> | <u>317,518</u> | <u>236,719</u> | <u>7,036,624</u> |
| Less: Accumulated Depreciation | | | | |
| Buildings and Improvements | 128,417 | 14,373 | - | 142,790 |
| Vehicles | 101,617 | 21,413 | - | 123,030 |
| Furniture and Fixtures | 180,115 | 51,156 | - | 231,271 |
| Books and Materials | 3,193,203 | 379,608 | 236,719 | 3,336,092 |
| Total Accumulated Depreciation | <u>3,603,352</u> | <u>466,550</u> | <u>236,719</u> | <u>3,833,183</u> |
| Net Book Value | <u>\$ 3,352,473</u> | <u>\$ (149,032)</u> | <u>\$ -</u> | <u>\$ 3,203,441</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.

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.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 4 LONG-TERM DEBT (CONTINUED)

B. Changes in Long-Term Debt

| | DECEMBER 31, 2005 | INCREASE | DECREASE | DECEMBER 31, 2006 |
|---|----------------------|--------------|----------------|----------------------|
| Lease Purchase Obligation | \$ 132,430 | \$ - | \$ 132,430 | \$ - |
| Compensated Absences | 40,067 | 2,210 | - | 42,277 |
| Total Long-Term Debt and Other Long-Term Liabilities | \$ 172,497 | \$ 2,210 | \$ 132,430 | \$ 42,277 |

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 2006.

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, 2006, with comparative actual amounts for 2005:

| | 2006 | 2005 |
|---------------------------------|---------------------|-------------------|
| Automation | \$ 347,777 | \$ 269,563 |
| Mobile Library | 101,150 | 75,280 |
| Vehicle | 104,482 | 95,923 |
| Automation Maintenance | 139,092 | 136,197 |
| Loan Security (Pine River Loan) | 23,423 | 23,423 |
| Building Maintenance | 18,980 | 18,837 |
| Accounting System | 23,834 | 23,790 |
| Library Building | 179,902 | 175,289 |
| KRL Endowment Fund | 57,894 | 57,894 |
| Headquarters' Gift | 277 | 277 |
| Crow Wing County | 43,000 | - |
| | <u>\$ 1,039,811</u> | <u>\$ 876,473</u> |

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

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 2006 and 2005:

| BRANCH | DECEMBER 31, 2006 | | DECEMBER 31, 2005 | |
|-----------------------------|------------------------|----------------------------|------------------------|----------------------------|
| | ANNUAL INTEREST EARNED | BALANCE INCLUDING INTEREST | ANNUAL INTEREST EARNED | BALANCE INCLUDING INTEREST |
| Bemidji | \$ 168 | \$ 17,514 | \$ 195 | \$ 17,346 |
| Blackduck | 517 | 9,083 | 96 | 8,566 |
| Brainerd | 543 | 25,003 | 274 | 24,460 |
| Cass Lake | 69 | 3,302 | 36 | 3,233 |
| Kitchigami Regional Library | 627 | 28,446 | 312 | 27,819 |
| Longville | 139 | 9,197 | 102 | 9,058 |
| Park Rapids | 131 | 9,621 | 106 | 9,490 |
| Pine River | 228 | 8,993 | 98 | 8,765 |
| Wadena | 295 | 19,266 | 213 | 18,971 |
| Walker | 178 | 8,667 | 95 | 8,489 |
| Total | <u>\$ 2,895</u> | <u>\$ 139,092</u> | <u>\$ 1,527</u> | <u>\$ 136,197</u> |

NOTE 7 STEWARDSHIP AND ACCOUNTABILITY

No budgetary disclosures required.

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 \$9,600,000. There has been no reduction in insurance coverage from the previous year in any of the Library's policies.

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.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 9 RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

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 | \$ 2,140,511 |
| Amounts reported in the statement of net assets are different because: | |
| Capital assets are not financial resources, and are not reported in the funds | 3,203,441 |
| Compensated absences are included as a liability | <u>(42,277)</u> |
| Net Assets of General Fund - Full Accrual Basis | <u><u>\$ 5,301,675</u></u> |

| | |
|--|-------------------|
| Net Change in Fund Balance - Modified Accrual Basis | \$ 189,783 |
|--|-------------------|

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 | 317,518 |
| Depreciation | (466,550) |
| (Increase) 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 | (2,210) |
| 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>132,429</u> |
| Change in Net Assets of General Fund - Full Accrual Basis | <u><u>\$ 170,970</u></u> |

NOTE 10 DEFINED BENEFIT PENSION PLAN

Plan Description

All full-time and certain part-time employees of the Kitchigami Regional Library are 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.

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.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Plan Description (Continued)

Two methods are used to compute benefits for PERA'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.

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 5.50%, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan will increase in 2007 to 5.75%. The Library is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 6.0% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan will increase to 6.25% effective January 1, 2007. The Library's contributions to the Public Employees Retirement Fund for the years ending December 31, 2006, 2005, and 2004, were \$61,770, \$53,133, and \$52,795, 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, 2006**

| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL BALANCE | VARIANCE FAVORABLE (UNFAVORABLE) |
|---|----------------------------|----------------------------|----------------------------|--|
| REVENUES | | | | |
| Intergovernmental | | | | |
| State | \$ 450,729 | \$ 450,729 | \$ 488,508 | \$ 37,779 |
| Local | 1,398,291 | 1,398,291 | 1,510,752 | 112,461 |
| Interest, Dividends, and Investments | 46,700 | 46,700 | 71,997 | 25,297 |
| Sales | 6,000 | 6,000 | 9,292 | 3,292 |
| Automation | 28,636 | 28,636 | 27,097 | (1,539) |
| Donations/Refunds/Miscellaneous | 1,000 | 1,000 | 121,577 | 120,577 |
| Total Revenues | <u>1,931,356</u> | <u>1,931,356</u> | <u>2,229,223</u> | <u>297,867</u> |
| EXPENDITURES | | | | |
| Salaries | | | | |
| Branch Library | 769,520 | 769,520 | 673,166 | 96,354 |
| Regional | 391,140 | 391,140 | 340,343 | 50,797 |
| Mobile Library | 60,180 | 60,180 | 45,122 | 15,058 |
| Employee Benefits | 266,749 | 266,749 | 221,813 | 44,936 |
| Library Operations | 186,046 | 186,046 | 173,115 | 12,931 |
| Building | 33,000 | 33,000 | 22,668 | 10,332 |
| Vehicle | 38,045 | 38,045 | 37,021 | 1,024 |
| Library Materials | 23,866 | 23,865 | 22,014 | 1,851 |
| Board | 100,900 | 100,900 | 37,607 | 63,293 |
| Miscellaneous | 19,300 | 19,300 | 16,627 | 2,673 |
| Capital Outlay | 252,934 | 252,934 | 317,518 | (64,584) |
| Debt Service | 132,428 | 132,429 | 132,429 | - |
| Total Expenditures | <u>2,274,108</u> | <u>2,274,108</u> | <u>2,039,443</u> | <u>234,665</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | <u>(342,752)</u> | <u>(342,752)</u> | <u>189,780</u> | <u>532,532</u> |
| Fund Balance - Beginning of Year | <u>1,950,731</u> | <u>1,950,731</u> | <u>1,950,731</u> | <u>-</u> |
| FUND BALANCE - END OF YEAR | <u><u>\$ 1,607,979</u></u> | <u><u>\$ 1,607,979</u></u> | <u><u>\$ 2,140,511</u></u> | <u><u>\$ 532,532</u></u> |

**KITCHIGAMI REGIONAL LIBRARY
 DETAILED REVENUE AND EXPENSE SCHEDULE
 YEAR ENDED DECEMBER 31, 2006
 (WITH COMPARATIVE ACTUAL AMOUNTS YEAR ENDED DECEMBER 31, 2005)**

| | <u>2006</u> | <u>2005</u> |
|--|---------------------|---------------------|
| INTERGOVERNMENTAL AND LOCAL REVENUE | | |
| State | | |
| State Aid | \$ 411,788 | \$ 455,617 |
| Special/Grants | 76,720 | 117,400 |
| Total State | <u>488,508</u> | <u>573,017</u> |
| County | | |
| Crow Wing | 470,319 | 431,756 |
| Cass | 286,497 | 262,856 |
| Hubbard | 171,231 | 160,224 |
| Beltrami | 232,015 | 117,481 |
| Wadena | 79,012 | 43,022 |
| Total County | <u>1,239,074</u> | <u>1,015,339</u> |
| City | | |
| Brainerd | 66,751 | 66,751 |
| Bemidji | 93,651 | 64,934 |
| Wadena | 46,800 | 31,200 |
| Park Rapids | 25,598 | 25,598 |
| Walker | 9,591 | 9,591 |
| Pine River | 9,236 | 9,236 |
| Blackduck | 9,390 | 6,260 |
| Longville | 5,806 | 5,834 |
| Cass Lake | 4,855 | 4,855 |
| Total City | <u>271,678</u> | <u>224,259</u> |
| Total Intergovernmental and Local Revenue | <u>1,999,260</u> | <u>1,812,615</u> |
| OTHER REVENUE | | |
| Interest on Savings | 63,040 | 44,317 |
| Endowment Investment Income | 8,957 | 5,357 |
| Automation | 27,097 | 33,954 |
| Sales | | |
| Photo Copies | 6,685 | 5,286 |
| Faxes | 2,607 | 1,850 |
| Miscellaneous Gifts and Other | 121,577 | 78,972 |
| Total Other Revenue | <u>229,963</u> | <u>169,736</u> |
| Total Revenues | <u>\$ 2,229,223</u> | <u>\$ 1,982,351</u> |

**KITCHIGAMI REGIONAL LIBRARY
 DETAILED REVENUE AND EXPENSE SCHEDULE
 YEAR ENDED DECEMBER 31, 2006
 (WITH COMPARATIVE ACTUAL AMOUNTS YEAR ENDED DECEMBER 31, 2005)**

| | 2006 | 2005 |
|--|-----------|-----------|
| EXPENSES | | |
| Library Materials | | |
| Periodicals and Papers | \$ 22,014 | \$ 16,426 |
| Total Library Materials | 22,014 | 16,426 |
| Library Operations | | |
| Automation Operating Costs | 96,614 | 100,985 |
| Communications/Dataline/Fax | 18,104 | 19,154 |
| Postage | 7,974 | 9,520 |
| Library Supplies | 27,736 | 23,382 |
| Office Supplies | 1,323 | 2,418 |
| OCLC Expense | 8,194 | 14,100 |
| Summer Reading Program | 4,252 | 1,814 |
| Promotion | 1,015 | - |
| Photocopy Supplies | 2,129 | 3,399 |
| Computer and Fax Supplies | 5,774 | 1,024 |
| Total Library | 173,115 | 175,796 |
| Vehicle | | |
| Auto/Mobile Library / Readmobile Lease | 12,000 | - |
| Auto/Mobile Library/Readmobile Gas and Oil | 14,353 | 15,722 |
| Auto/Mobile Library/Readmobile Repairs | 4,216 | 18,624 |
| Auto/Mobile Library Insurance | 6,452 | 6,617 |
| Total Vehicle | 37,021 | 40,963 |
| Building | | |
| Insurance - Contents and Liability | 13,051 | 16,621 |
| Repairs and Maintenance | 3,212 | 7,975 |
| Electric | 3,072 | 3,180 |
| Gas | 1,827 | 1,582 |
| Sanitation/Disposal | 892 | 855 |
| Sewer | 126 | 433 |
| Water | 488 | 165 |
| Total Building | 22,668 | 30,811 |
| Board | | |
| Meetings | 4,716 | 6,918 |
| Professional Fees and Dues | 30,162 | 19,793 |
| Insurance | 2,729 | 3,025 |
| Total Board | 37,607 | 29,736 |
| Branch Salaries | | |
| Bemidji | 151,012 | 174,312 |
| Brainerd | 235,397 | 154,134 |

**KITCHIGAMI REGIONAL LIBRARY
REVENUE AND EXPENSE SCHEDULE
YEAR ENDED DECEMBER 31, 2006
(WITH COMPARATIVE ACTUAL AMOUNTS YEAR ENDED DECEMBER 31, 2005)**

| | 2006 | 2005 |
|-------------------------------------|---------------------|---------------------|
| EXPENSES (CONTINUED) | | |
| Branch Salaries (Continued) | | |
| Park Rapids | 94,763 | 72,151 |
| Wadena | 46,466 | 51,552 |
| Pine River | 34,187 | 27,666 |
| Walker | 35,083 | 22,689 |
| Longville | 30,838 | 25,941 |
| Blackduck | 23,440 | 25,593 |
| Cass Lake | 21,980 | 17,578 |
| Total Branch Salaries | 673,166 | 571,616 |
| Regional Salaries | | |
| System Support | 134,111 | 146,983 |
| Technical Services | 123,805 | 125,177 |
| Interlibrary Loan | 65,837 | 95,379 |
| Delivery | 16,590 | 18,564 |
| Total Regional Salaries | 340,343 | 386,103 |
| Mobile Library Salaries | 45,122 | 34,777 |
| Employee Benefits | | |
| FICA | 85,939 | 79,375 |
| Health Insurance | 60,700 | 44,864 |
| PERA | 61,770 | 53,133 |
| Worker's Compensation | 6,957 | 9,822 |
| Staff Development/Conferences/Other | 4,072 | 4,260 |
| Unemployment | 4,585 | 2,965 |
| Total Employee Benefits | 224,023 | 194,419 |
| Miscellaneous | | |
| Meetings | 4,210 | - |
| Travel | 1,445 | 2,041 |
| Investment Fees | 685 | 637 |
| Recruiting | 5,211 | 3,264 |
| Other | 5,073 | 24,924 |
| Total Miscellaneous | 16,624 | 30,866 |
| Depreciation | | |
| Books and Materials | 379,608 | 370,353 |
| Buildings and Equipment | 86,942 | 80,107 |
| Total Depreciation | 466,550 | 450,460 |
| Total Expenses | <u>\$ 2,058,253</u> | <u>\$ 1,961,973</u> |

OTHER REPORTS SECTION

MATHIAS C. JUSTIN, LTD.
Certified Public Accountants

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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, 2006, and have issued our report thereon dated April 23, 2007.

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, 2006.

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 23, 2007