

KITCHIGAMI REGIONAL LIBRARY

FINANCIAL STATEMENTS

DECEMBER 31, 2007

KITCHIGAMI REGIONAL LIBRARY

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INTRODUCTORY SECTION

**KITCHIGAMI REGIONAL LIBRARY
OFFICIAL DIRECTORY
DECEMBER 31, 2007**

POSITION	NAME
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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	Wayne LaDuke	City of Cass Lake
Rachel Reabe Nystrom (County Commissioner)	Crow Wing County	Jack Shaffer	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	Mary Beth Mohr	City of Walker
Marci Olson	Wadena County		

FINANCIAL SECTION

MATHIAS C. JUSTIN, LTD.
Certified Public Accountants

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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, 2007, and for the year then ended. These financial statements are the responsibility of Kitchigami Regional Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

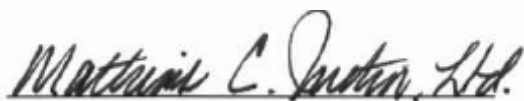
Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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's 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, 2007, 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 opinions on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2007, 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
May 6, 2008

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,	
	2007	2006
Current Assets	\$ 1,317,700	\$ 1,118,735
Capital Assets (Net)	3,196,243	3,203,441
Restricted Assets	1,187,567	1,120,175
Total Assets	<u>5,701,510</u>	<u>5,442,351</u>
Long-Term Debt	47,046	42,277
Other Liabilities	130,505	98,399
Total Liabilities	<u>177,551</u>	<u>140,676</u>
Net Assets		
Invested in Capital Assets, Net of Debt	3,196,243	3,203,441
Restricted by Board	1,187,567	959,849
Unrestricted	1,140,149	1,138,385
Total Net Assets	<u>\$ 5,523,959</u>	<u>\$ 5,301,675</u>
Revenue		
State	494,022	488,508
Local	1,661,552	1,510,752
Other	211,212	229,963
Total Revenue	<u>2,366,786</u>	<u>2,229,223</u>
Expenses - Library Services	<u>2,144,502</u>	<u>2,058,253</u>
CHANGE IN NET ASSETS	<u>\$ 222,284</u>	<u>\$ 170,970</u>

KITCHIGAMI REGIONAL LIBRARY MANAGEMENT'S DISCUSSION AND ANALYSIS

The Library as a Whole

- Kitchigami Regional Library's net assets increased by \$222,284 this year to \$5,523,959 compared to \$5,301,675 in 2006. The primary reason for the increase was an excess of state revenue over approved expenditures, additional interest revenue, and unbudgeted donations.
- The Library's primary source of revenue was city and county levies, which represent 75% of total revenue compared to 68% last year. State basic aid, telecommunications, and special grants represent 21% of total revenue.
- Employee costs, which represent 65% of the Library's expenses, increased to \$1,386,685 from \$1,282,654 in 2006.
- Depreciation, including the Library Materials, was the second largest expense category; at \$469,596, it is 22% 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 805,320 items in 2007 and 17,407 interlibrary loan items were borrowed and loaned. At the end of 2007, the library's collections contained 280,617 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 2007, the Library's Board amended the budget to take into account events that occurred during the year.

The significant changes in revenues were:

- Donations for Library materials are not budgeted but are now a significant factor in total revenue.
- Interest income increased significantly.
- The first benefits of the increase to State Regional Library Basic System Support were received in the later part of the year.

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

The Library Budgetary Highlights (Continued)

The significant changes in expenditures were:

- Decreased telecommunications and supplies costs resulted in lower operating costs.
- Increased expenditure on books, magazines, and other library materials.
- Increased interlibrary loan activity and costs due to our status as a gateway library for MNLINK.
- Reduced capital outlay and staff turnovers meant that some budgeted projects were not completed.

Capital Assets and Debt

At the end of 2007, the Library had a net investment of \$3,196,243 invested in property which consisted of, its headquarters building, furniture and equipment, and vehicles and library materials.

The Library added \$318,512 in new collection items, including 4,406 items purchased with gift funds and 13,376 items from the Kitchigami Regional Library's budget. At the end of 2007, \$18,627 of the Library's funds were carried forward into 2008; \$29,335 in gift funds were carried forward into 2008. All materials purchased with donated funds are housed in the branch library that received the donations. Kitchigami Regional Library now purchases its electronic information databases for Kitchigami Regional Library resident borrower cardholders.

Compensated absences totaling \$47,046 for unused vacation leave is the only 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, 2007**

ASSETS	GENERAL FUND MODIFIED ACCRUAL BASIS	ADJUSTMENTS	STATEMENT OF NET ASSETS
Current Assets			
Cash and Cash Equivalents	\$ 1,297,888	\$ -	\$ 1,297,888
Accounts and Grants Receivable	7,475	-	7,475
Prepaid Expenses	12,337	-	12,337
Total Current Assets	<u>1,317,700</u>	<u>-</u>	<u>1,317,700</u>
Fixed Assets			
Land	-	34,566	34,566
Building and Improvements	-	603,005	603,005
Vehicles	-	270,764	270,764
Furniture, Fixtures, and Equipment	-	562,046	562,046
Library Books and Materials	-	5,641,937	5,641,937
Total Fixed Assets	<u>-</u>	<u>7,112,318</u>	<u>7,112,318</u>
Less Accumulated Depreciation	-	3,916,075	3,916,075
Net Fixed Assets	<u>-</u>	<u>3,196,243</u>	<u>3,196,243</u>
Restricted Assets			
Cash and Cash Equivalents	1,100,078	-	1,100,078
Minnesota Library Foundation - Endowment	87,489	-	87,489
Total Restricted Assets	<u>1,187,567</u>	<u>-</u>	<u>1,187,567</u>
Total Assets	<u>\$ 2,505,267</u>	<u>\$ 3,196,243</u>	<u>\$ 5,701,510</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 37,465	\$ -	\$ 37,465
Minnesota Unemployment Payable	1,972	-	1,972
Accrual Payroll	90,630	-	90,630
Sales Tax Payable	438	-	438
Accrued Compensated Absences	-	47,046	47,046
Total Current Liabilities	<u>130,505</u>	<u>47,046</u>	<u>177,551</u>
Total Liabilities	<u>130,505</u>	<u>47,046</u>	<u>177,551</u>
FUND BALANCE/NET ASSETS			
Fund Balance			
Unreserved			
Designated for Capital Improvements	1,187,567	(1,187,567)	-
Undesignated	1,187,195	(1,187,195)	-
Total Fund Balance	<u>2,374,762</u>	<u>(2,374,762)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 2,505,267</u>		
Net Assets			
Investment in Capital Assets, Net of Related Debt		3,196,243	3,196,243
Restricted by Board		1,187,567	1,187,567
Unrestricted		1,140,149	1,140,149
Total Net Assets		<u>\$ 5,523,959</u>	<u>\$ 5,523,959</u>

**KITCHIGAMI REGIONAL LIBRARY
STATEMENT OF GOVERNMENTAL REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE/
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2007**

	GENERAL FUND MODIFIED ACCRUAL BASIS	ADJUSTMENTS	STATEMENT OF ACTIVITIES
REVENUES			
State Aid	\$ 494,022	\$ -	\$ 494,022
Local	1,661,552	-	1,661,552
Interest, Dividends, and Investments	88,830	-	88,830
Sales	9,720	-	9,720
Automation	30,211	-	30,211
Donations/Refunds/Miscellaneous	82,451	-	82,451
Total Revenues	<u>2,366,786</u>	<u>-</u>	<u>2,366,786</u>
EXPENDITURES			
Salaries			
Branch	804,600	-	804,600
Regional	283,696	-	283,696
Mobile Library	36,271	-	36,271
Employee Benefits	262,118	-	262,118
Library Operations	93,832	-	93,832
Building	31,505	-	31,505
Vehicle	59,018	-	59,018
Library Materials	32,581	-	32,581
Board	45,850	-	45,850
Miscellaneous	20,666	4,769	25,435
Capital Outlay	462,398	(462,398)	-
Depreciation	-	469,596	469,596
Total Expenditures	<u>2,132,535</u>	<u>11,967</u>	<u>2,144,502</u>
 EXCESS (DEFICIT) OF REVENUE OVER EXPENDITURES/CHANGES IN NET ASSETS	 234,251	 (11,967)	 222,284
 Fund Balance/Net Assets - Beginning of Year	 <u>2,140,511</u>	 <u>3,161,164</u>	 <u>5,301,675</u>
 FUND BALANCE/NET ASSETS - END OF YEAR	 <u><u>\$ 2,374,762</u></u>	 <u><u>\$ 3,149,197</u></u>	 <u><u>\$ 5,523,959</u></u>

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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, 2007**

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, 2007**

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, 2007**

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.

	BANK BALANCE	CARRYING AMOUNT
Deposit balances at December 31, 2007, are as follows: follows:	\$ 2,445,533	\$ 2,397,966

Following is a schedule of the total cash deposits of the Library at various financial institutions and the amounts insured or collateralized by securities held by the Library's agent in the Library's name:

	PINE RIVER STATE BANK	1ST NATIONAL BANK WALKER	1ST FEDERAL BANK DEERWOOD	BANK FORWARD WALKER	TOTAL
Bank Balance	\$ 2,040,190	\$ 20,773	\$ 16,891	\$ 367,679	\$ 2,445,533
Collateral	\$ 1,825,000	\$ -	\$ -	\$ -	
FDIC Insurance	100,000	100,000	100,000	100,000	
Total Collateral and Insurance	1,925,000	100,000	100,000	100,000	
(Under) Collateralized	\$ (115,190)	\$ -	\$ -	\$ (267,679)	

The Library was under collateralized at the Pine River State Bank and Bank Forward Walker as of December 31, 2007.

Following is the change in cash balances during 2007:

DESCRIPTION	DECEMBER 31, 2006	NET INCREASE	NET DECREASE	DECEMBER 31, 2007
Checking	\$ 47,450	\$ 212,909	\$ -	\$ 260,359
Money Market and Certificates of Deposit	2,086,377	51,230	-	2,137,607
Total	\$ 2,133,827	\$ 264,139	\$ -	\$ 2,397,966

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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, 2006	INCREASE	DECREASE	DECEMBER 31, 2007
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	418,161	143,885	-	562,046
Books and Materials	5,710,128	318,513	386,704	5,641,937
Total Fixed Assets	<u>7,036,624</u>	<u>462,398</u>	<u>386,704</u>	<u>7,112,318</u>
Less: Accumulated Depreciation				
Buildings and Improvements	142,790	14,373	-	157,163
Vehicles	123,030	21,411	-	144,441
Furniture and Fixtures	231,271	68,134	-	299,405
Books and Materials	3,336,092	365,678	386,704	3,315,066
Total Accumulated Depreciation	<u>3,833,183</u>	<u>469,596</u>	<u>386,704</u>	<u>3,916,075</u>
Net Book Value	<u>\$ 3,203,441</u>	<u>\$ (7,198)</u>	<u>\$ -</u>	<u>\$ 3,196,243</u>

NOTE 4 LONG-TERM DEBT

Changes in Long-Term Debt

	DECEMBER 31, 2006	INCREASE	DECREASE	DECEMBER 31, 2007
Compensated Absences	<u>\$ 42,277</u>	<u>\$ 4,769</u>	<u>\$ -</u>	<u>\$ 47,046</u>
Total Other Long-Term Liabilities	<u>\$ 42,277</u>	<u>\$ 4,769</u>	<u>\$ -</u>	<u>\$ 47,046</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 2007.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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, 2007, with comparative actual amounts for 2006:

	<u>2007</u>	<u>2006</u>
Automation	\$ 358,279	\$ 347,777
Mobile Library	120,890	101,150
Vehicle	108,285	104,482
Automation Maintenance	152,365	139,092
Loan Security (Pine River Loan)	29,571	23,423
Building Maintenance	20,774	18,980
Accounting System	24,177	23,834
Library Building	184,815	179,902
KRL Endowment Fund	87,489	57,894
Headquarters' Gift	277	277
Crow Wing County	100,645	43,000
	<u>\$ 1,187,567</u>	<u>\$ 1,039,811</u>

Following is a schedule of the automation repair and maintenance which allocates the reserve and the annual interest earned to each branch for 2007 and 2006:

<u>BRANCH</u>	<u>DECEMBER 31, 2007</u>		<u>DECEMBER 31, 2006</u>	
	ANNUAL INTEREST EARNED	BALANCE INCLUDING INTEREST	ANNUAL INTEREST EARNED	BALANCE INCLUDING INTEREST
Bemidji	\$ 1,671	\$ 19,185	\$ 168	\$ 17,514
Blackduck	867	9,950	517	9,083
Brainerd	2,386	27,389	543	25,003
Cass Lake	315	3,617	69	3,302
Kitchigami Regional Library	2,714	31,160	627	28,446
Longville	878	10,075	139	9,197
Park Rapids	918	10,539	131	9,621
Pine River	858	9,851	228	8,993
Wadena	1,838	21,104	295	19,266
Walker	828	9,495	178	8,667
	<u>\$ 13,273</u>	<u>\$ 152,365</u>	<u>\$ 2,895</u>	<u>\$ 139,092</u>
Total	<u>\$ 13,273</u>	<u>\$ 152,365</u>	<u>\$ 2,895</u>	<u>\$ 139,092</u>

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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 \$10,100,000. 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.

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	\$ 2,374,762
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources, and are not reported in the funds	3,196,243
Compensated absences are included as a liability	<u>(47,046)</u>
Net Assets of General Fund - Full Accrual Basis	<u>\$ 5,523,959</u>
Net Change in Fund Balance - Modified Accrual Basis	\$ 234,251
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	462,398
Depreciation	(469,596)
(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	<u>(4,769)</u>
Change in Net Assets of General Fund - Full Accrual Basis	<u><u>\$ 222,284</u></u>

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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.

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.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

NOTE 10 DEFINED BENEFIT PENSION PLAN (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 5.75%, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan will increase in 2008 to 6.0%. The Library is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 6.25% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan will increase to 6.5% effective January 1, 2008. The Library's contributions to the Public Employees Retirement Fund for the years ending December 31, 2007, 2006, and 2005, were \$67,854, \$61,770, and \$53,133, 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, 2007**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL BALANCE	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				
Intergovernmental				
State	\$ 450,145	\$ 450,145	\$ 494,022	\$ 43,877
Local	1,658,292	1,658,292	1,661,552	3,260
Interest, Dividends, and Investments	46,700	46,700	88,830	42,130
Sales	6,500	6,500	9,720	3,220
Automation	40,092	40,092	30,211	(9,881)
Donations/Refunds/Miscellaneous	10,000	10,000	82,451	72,451
Total Revenues	<u>2,211,729</u>	<u>2,211,729</u>	<u>2,366,786</u>	<u>155,057</u>
EXPENDITURES				
Salaries				
Branch Library	753,786	753,786	760,112	(6,326)
Regional	297,823	297,823	328,184	(30,361)
Mobile Library	45,764	45,764	36,271	9,493
Employee Benefits	253,736	253,736	262,118	(8,382)
Library Operations	147,372	147,372	93,832	53,540
Building	31,400	31,400	31,505	(105)
Vehicle	39,302	39,302	59,018	(19,716)
Library Materials	21,803	21,803	32,581	(10,778)
Board	103,750	103,750	45,850	57,900
Miscellaneous	22,400	22,400	20,666	1,734
Capital Outlay	556,972	556,972	462,398	94,574
Total Expenditures	<u>2,274,108</u>	<u>2,274,108</u>	<u>2,132,535</u>	<u>141,573</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(62,379)</u>	<u>(62,379)</u>	<u>234,251</u>	<u>296,630</u>
Fund Balance - Beginning of Year	<u>2,140,511</u>	<u>2,140,511</u>	<u>2,140,511</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 2,078,132</u></u>	<u><u>\$ 2,078,132</u></u>	<u><u>\$ 2,374,762</u></u>	<u><u>\$ 296,630</u></u>

**KITCHIGAMI REGIONAL LIBRARY
 DETAILED REVENUE AND EXPENSE SCHEDULE
 YEAR ENDED DECEMBER 31, 2007
 (WITH COMPARATIVE ACTUAL AMOUNTS YEAR ENDED DECEMBER 31, 2006)**

	<u>2007</u>	<u>2006</u>
INTERGOVERNMENTAL AND LOCAL REVENUE		
State		
State Aid	\$ 452,119	\$ 411,788
Special/Grants	41,903	76,720
Total State	<u>494,022</u>	<u>488,508</u>
County		
Crow Wing	513,164	470,319
Cass	301,391	286,497
Hubbard	182,774	171,231
Beltrami	287,394	232,015
Wadena	88,306	79,012
Total County	<u>1,373,029</u>	<u>1,239,074</u>
City		
Brainerd	70,847	66,751
Bemidji	98,334	93,651
Wadena	49,140	46,800
Park Rapids	26,878	25,598
Walker	10,071	9,591
Pine River	9,698	9,236
Blackduck	9,860	9,390
Longville	6,096	5,806
Cass Lake	7,599	4,855
Total City	<u>288,523</u>	<u>271,678</u>
Total Intergovernmental and Local Revenue	<u>2,155,574</u>	<u>1,999,260</u>
OTHER REVENUE		
Interest on Savings	80,890	63,040
Endowment Investment Income	7,940	8,957
Automation	30,211	27,097
Sales		
Photo Copies	7,019	6,685
Faxes	2,701	2,607
Miscellaneous Gifts and Other	82,451	121,577
Total Other Revenue	<u>211,212</u>	<u>229,963</u>
Total Revenues	<u>\$ 2,366,786</u>	<u>\$ 2,229,223</u>

**KITCHIGAMI REGIONAL LIBRARY
 DETAILED REVENUE AND EXPENSE SCHEDULE
 YEAR ENDED DECEMBER 31, 2007
 (WITH COMPARATIVE ACTUAL AMOUNTS YEAR ENDED DECEMBER 31, 2006)**

	2007	2006
EXPENSES		
Library Materials		
Periodicals and Papers	\$ 32,581	\$ 22,014
Total Library Materials	32,581	22,014
Library Operations		
Automation Operating Costs	8,025	96,614
Communications/Dataline/Fax	15,044	18,104
Postage	7,013	7,974
Library Supplies	30,482	27,736
Office Supplies	7,099	1,323
OCLC Expense	11,500	8,194
Summer Reading Program	2,410	4,252
Promotion	320	1,015
Photocopy Supplies	2,127	2,129
Computer and Fax Supplies	9,812	5,774
Total Library Operations	93,832	173,115
Vehicle		
Auto/Mobile Library / Readmobile Lease	-	12,000
Auto/Mobile Library/Readmobile Gas and Oil	21,305	14,353
Auto/Mobile Library/Readmobile Repairs	28,780	4,216
Auto/Mobile Library Insurance	8,933	6,452
Total Vehicle	59,018	37,021
Building		
Insurance - Contents and Liability	17,156	13,051
Repairs and Maintenance	7,119	3,212
Electric	3,969	3,072
Gas	1,732	1,827
Sanitation/Disposal	922	892
Sewer	481	126
Water	126	488
Total Building	31,505	22,668
Board		
Meetings	4,195	4,716
Professional Fees and Dues/Special Projects	39,096	30,162
Insurance	2,559	2,729
Total Board	45,850	37,607
Branch Salaries		
Bemidji	182,809	151,012
Brainerd	323,550	235,397

**KITCHIGAMI REGIONAL LIBRARY
REVENUE AND EXPENSE SCHEDULE
YEAR ENDED DECEMBER 31, 2007
(WITH COMPARATIVE ACTUAL AMOUNTS YEAR ENDED DECEMBER 31, 2006)**

	<u>2007</u>	<u>2006</u>
EXPENSES (CONTINUED)		
Branch Salaries (Continued)		
Park Rapids	97,858	94,763
Wadena	24,265	46,466
Pine River	53,468	34,187
Walker	37,415	35,083
Longville	31,797	30,838
Blackduck	29,837	23,440
Cass Lake	23,601	21,980
Total Branch Salaries	<u>804,600</u>	<u>673,166</u>
Regional Salaries		
System Support	97,079	134,111
Technical Services	116,009	123,805
Interlibrary Loan	53,385	65,837
Delivery	17,223	16,590
Total Regional Salaries	<u>283,696</u>	<u>340,343</u>
Mobile Library Salaries	<u>36,271</u>	<u>45,122</u>
Employee Benefits		
FICA	90,801	85,939
Health Insurance	59,734	60,700
PERA	67,854	61,770
Worker's Compensation	17,062	6,957
Staff Development/Conferences/Other	12,597	4,072
Unemployment	14,070	4,585
Total Employee Benefits	<u>262,118</u>	<u>224,023</u>
Miscellaneous		
Meetings	4,268	4,210
Travel	2,843	1,445
Investment Fees	815	685
Recruiting	9,852	5,211
Other	7,657	5,073
Total Miscellaneous	<u>25,435</u>	<u>16,624</u>
Depreciation		
Books and Materials	365,678	379,608
Buildings and Equipment	103,918	86,942
Total Depreciation	<u>469,596</u>	<u>466,550</u>
Total Expenses	<u><u>\$ 2,144,502</u></u>	<u><u>\$ 2,058,253</u></u>

OTHER REPORTS SECTION

MATHIAS C. JUSTIN, LTD.
Certified Public Accountants

Mick Justin, CPA
Judith Moravec, CPA

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Member:

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

AUDITOR'S REPORT ON LEGAL COMPLIANCE

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

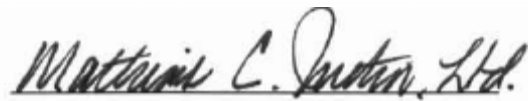
We have audited the financial statements of the Kitchigami Regional Library as of and for the year ended December 31, 2007, and have issued our report thereon dated May 6, 2008.

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* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements, and miscellaneous provisions. 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, 2007.

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
May 6, 2008