

KITCHIGAMI REGIONAL LIBRARY

FINANCIAL STATEMENTS

DECEMBER 31, 2008

KITCHIGAMI REGIONAL LIBRARY

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INTRODUCTORY SECTION

**KITCHIGAMI REGIONAL LIBRARY
OFFICIAL DIRECTORY
DECEMBER 31, 2008**

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
Don Carlson (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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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 governmental activities and each major fund of the Kitchigami Regional Library as of and for the year ended December 31, 2008, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

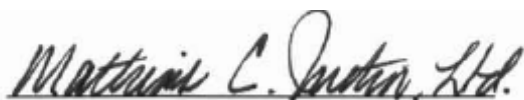
Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 respective financial position of the governmental activities and each major fund of the Library as of December 31, 2008, and the respective changes in financial position thereof 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 the budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries 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 financial statements that collectively comprise the Kitchigami Regional Library's basic financial statements. The accompanying supplementary information is presented for purposes of additional analysis and are 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 13, 2009

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,	
	2008	2007
Current Assets	\$ 1,823,382	\$ 1,317,700
Capital Assets (Net)	3,064,044	3,196,243
Restricted Assets	1,334,475	1,187,567
Total Assets	<u>6,221,901</u>	<u>5,701,510</u>
Long-Term Debt	-	47,046
Other Liabilities	504,935	130,505
Total Liabilities	<u>504,935</u>	<u>177,551</u>
Net Assets		
Invested in Capital Assets, Net of Debt	3,049,984	3,196,243
Restricted by Board	1,334,475	1,187,567
Unrestricted	1,332,507	1,140,149
Total Net Assets	<u>\$ 5,716,966</u>	<u>\$ 5,523,959</u>
Revenue		
State	711,967	494,022
Local	1,738,829	1,661,552
Other	193,237	211,212
Total Revenue	<u>2,644,033</u>	<u>2,366,786</u>
Expenses - Library Services	<u>2,451,026</u>	<u>2,144,502</u>
CHANGE IN NET ASSETS	<u>\$ 193,007</u>	<u>\$ 222,284</u>

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

The Library as a Whole

- Kitchigami Regional Library's net assets increased by \$193,007 this year to \$5,716,966 compared to \$5,523,959 in 2007. 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 66% of total revenue compared to 75% last year. State basic aid, telecommunications, and special grants represent 27% of total revenue.
- Employee costs, which represent 60% of the Library's expenses, increased to \$1,482,823 from \$1,386,685 in 2007.
- Depreciation, including the Library Materials, was the second largest expense category; at \$555,960, it is 23% of the expenses
- The operational expenditures supported circulation of 853,129 items in 2008, a 6% increase, and 19,835 interlibrary loan items were borrowed and loaned. At the end of 2008, the library's collections contained 274,120 items.

The Library's Funds

Changes to Kitchigami Regional Library's funds 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 2008, 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 decreased significantly.
- The first benefits of the increase to State Regional Library Basic System Support were received in the later part of the year.
- Significant increase in State Regional Library Telecommunications Aid.

**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.
- Increased expenditure on fuel affected mobile library and delivery costs.

Capital Assets and Debt

At the end of 2008, the Library had a net investment of \$3,064,044 invested in property which consisted of, its headquarters building, furniture and equipment, vehicles, and library collections.

The Library added \$350,450 in new collection items, including 4,100 items purchased with gift funds and 20,407 items from the Kitchigami Regional Library's budget. At the end of 2008, \$29,866 of the Library's funds were carried forward into 2009 for materials and processing; \$38,228 in gift funds were carried forward into 2009. All materials purchased with donated funds are housed in the branch library that received the donations. The Library now purchases eight electronic information databases for Kitchigami Regional Library resident borrower cardholders.

External Factors

Currently known facts, decisions, or conditions that are expected to have a significant effect on the current financial position or results of operations:

Considerable time, effort, and expense have gone into a proposal for a new joint powers agreement between the cities and counties that may affect some areas of financial jurisdictions in the future.

BASIC FINANCIAL STATEMENTS

**KITCHIGAMI REGIONAL LIBRARY
STATEMENT OF NET ASSETS
DECEMBER 31, 2008**

GOVERNMENTAL
ACTIVITIES

ASSETS	
Cash and Cash Equivalents	\$ 1,765,517
Accounts and Grants Receivable	45,638
Prepaid Expenses	12,227
Capital Assets:	
Land	34,566
Buildings and Improvements	603,005
Vehicles	270,764
Furniture, Fixtures, and Equipment	564,105
Library Collections	5,791,190
Less Accumulated Depreciation	(4,199,586)
Restricted Assets:	
Cash and Cash Equivalents	1,271,706
Minnesota Library Foundation - Endowment	62,769
	6,221,901
LIABILITIES	
Accounts Payable	47,030
Sales Tax Payable	404
Employee Benefits Payable	16,994
Accrued Payroll	102,027
Accrued Compensated Absences	54,060
Deferred Revenue	284,420
	504,935
NET ASSETS	
Investment in Capital Assets, Net of Related Debt	3,064,044
Restricted by Board	1,334,475
Unrestricted	1,318,447
	\$ 5,716,966

**KITCHIGAMI REGIONAL LIBRARY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2008**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	TOTAL GOVERNMENTAL ACTIVITIES
Governmental Activities:				
Library Operations	\$ 2,116,812	\$ 125,253	\$ 711,967	\$ (1,279,592)
Building	41,128	-	-	(41,128)
Vehicle	64,124	-	-	(64,124)
Library Materials	71,252	-	-	(71,252)
Board	118,487	-	-	(118,487)
Miscellaneous	39,223	-	-	(39,223)
	-	-	-	-
Total Governmental Activities	<u>\$ 2,451,026</u>	<u>\$ 125,253</u>	<u>\$ 711,967</u>	<u>(1,613,806)</u>
General Revenues:				
Allotments from Participating Governments				1,738,829
Interest, Dividends, and Investments				<u>67,984</u>
Total General Revenues				<u>1,806,813</u>
INCREASE IN NET ASSETS				193,007
Net Assets - Beginning				<u>5,523,959</u>
NET ASSETS - ENDING				<u>\$ 5,716,966</u>

**KITCHIGAMI REGIONAL LIBRARY
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008**

GENERAL
FUND

ASSETS

Cash and Cash Equivalents	\$ 1,765,517
Accounts and Grants Receivable	45,638
Prepaid Expenses	12,227
Restricted Assets:	
Cash and Cash Equivalents	1,271,706
Minnesota Library Foundation - Endowment	<u>62,769</u>
 Total Assets	 <u><u>\$ 3,157,857</u></u>

LIABILITIES AND FUND BALANCE

Liabilities:	
Accounts Payable	\$ 47,030
Sales Tax Payable	404
Employee Benefits Payable	16,994
Accrued Payroll	102,027
Accrued Compensated Absences	54,060
Deferred Revenue	<u>284,420</u>
 Total Liabilities	 <u>504,935</u>
Fund Balance:	
Unreserved	
Designated for Capital Improvements	1,334,475
Undesignated	<u>1,318,447</u>
 Total Fund Balance	 <u>2,652,922</u>
 Total Liabilities and Fund Balance	 <u><u>\$ 3,157,857</u></u>

**KITCHIGAMI REGIONAL LIBRARY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2008**

Total Fund Balances - Governmental Funds	\$ 2,652,922
Total Net Assets reported for governmental activities in the Statement of Net Assets are different because:	
Capital Assets used in governmental activities are not financial resources and therefore are not reported as assets in the Governmental Funds	
Cost of Capital Assets	7,263,630
Less: Accumulated Depreciation	<u>(4,199,586)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u>\$ 5,716,966</u>

**KITCHIGAMI REGIONAL LIBRARY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2008**

	<u>GOVERNMENTAL FUNDS</u>
REVENUES	
State Aid	\$ 711,967
Local Aid	1,738,829
Interest/Dividends/Investments	67,984
Sales	9,628
Automation	42,366
Donations/Refunds/Miscellaneous	<u>73,259</u>
Total Revenue	<u>2,644,033</u>
EXPENDITURES	
Current	
Library Operations	2,018,697
Building	26,755
Vehicle	44,413
Library Materials	71,252
Board	118,487
Miscellaneous	<u>39,223</u>
Total Expenditures	<u>2,318,827</u>
NET INCREASE IN FUND BALANCE	325,206
Fund Balance - Beginning of Year	2,374,762
Prior Period Adjustment	<u>(47,046)</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 2,652,922</u></u>

**KITCHIGAMI REGIONAL LIBRARY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES -
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2008**

Net Increase in Fund Balance - Governmental funds	\$ 325,206
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Amounts reported for Governmental Activities in the Statement of Activities are different because:

Capital Outlays are reported in Governmental Funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as Depreciation Expense

Capital Outlays	352,509
Depreciation Expense	<u>(484,708)</u>

INCREASE IN NET ASSETS - GOVERNMENTAL ACTIVITIES	<u><u>\$ 193,007</u></u>
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**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

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).

Library-wide Financial Statements

The library-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, 2008**

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

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

Library-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, 2008**

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 library-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. 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

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:

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

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2008, are as follows:	\$ 3,045,585	\$ 3,037,223

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 FEDERAL BANK DEERWOOD	TOTAL
Bank Balance	\$ 3,028,395	\$ 17,190	\$ 3,045,585
Collateral	\$ 1,850,000	\$ -	
FDIC Insurance	250,000	250,000	
Total Collateral and Insurance	2,100,000	250,000	
(Under) Collateralized	\$ (928,395)	\$ -	

Following is the change in cash balances during 2008:

DESCRIPTION	DECEMBER 31, 2007	NET INCREASE	NET DECREASE	DECEMBER 31, 2008
Checking	\$ 260,359	\$ 186,655	\$ -	\$ 447,014
Money Market and Certificates of Deposit	2,137,607	452,602	-	2,590,209
Total	\$ 2,397,966	\$ 639,257	\$ -	\$ 3,037,223

Custodial Credit Risk

The custodial credit risk for deposits is the risk that in the event of a bank failure, the Organization's deposits may not be recovered. The Organization's deposits exceeded FDIC insurance or collateral at the Pine River State Bank as of December 31, 2008. Beginning October 3, 2008, for interest bearing deposit accounts and October 14, 2008, for non-interest bearing transaction deposit accounts, and for the year 2009, FDIC insurance will be \$250,000.

Unlimited deposit insurance coverage is available through December 31, 2009, for non-interest bearing transaction accounts (checking) at institutions participating in FDIC's Temporary Liquidity Guarantee Program.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of the Library's cash and notes payable approximate their fair value.

NOTE 4 FIXED ASSETS

A summary of changes in Fixed Assets is as follows:

	<u>DECEMBER 31, 2007</u>	<u>INCREASE</u>	<u>DECREASE</u>	<u>DECEMBER 31, 2008</u>
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	562,046	2,059	-	564,105
Books and Materials (Collections)	5,641,937	350,450	201,197	5,791,190
Total Fixed Assets	<u>7,112,318</u>	<u>352,509</u>	<u>201,197</u>	<u>7,263,630</u>
Less: Accumulated Depreciation				
Buildings and Improvements	157,163	14,373	-	171,536
Vehicles	144,441	19,711	-	164,152
Furniture and Fixtures	299,405	75,723	-	375,128
Books and Materials (Collections)	3,315,066	374,901	201,197	3,488,770
Total Accumulated Depreciation	<u>3,916,075</u>	<u>484,708</u>	<u>201,197</u>	<u>4,199,586</u>
Net Book Value	<u>\$ 3,196,243</u>	<u>\$ (132,199)</u>	<u>\$ -</u>	<u>\$ 3,064,044</u>

Current year depreciation and capital outlay expense were allocated by function as follows:

	<u>DEPRECIATION</u>	<u>CAPITAL OUTLAY</u>
Buildings	\$ 14,373	\$ -
Vehicles	19,711	-
Library Operations	<u>450,624</u>	<u>352,509</u>
Total	<u>\$ 484,708</u>	<u>\$ 352,509</u>

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.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

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, 2008, with comparative actual amounts for 2007:

	<u>2008</u>	<u>2007</u>
Automation	\$ 371,104	\$ 358,279
Mobile Library	127,583	120,890
Vehicle	114,978	108,285
Automation Maintenance	157,189	152,365
Loan Security (Pine River Loan)	31,347	29,571
Building Maintenance	23,173	20,774
Accounting System	24,574	24,177
Library Building	188,162	184,815
KRL Endowment Fund	62,769	87,489
Headquarters' Gift	277	277
Crow Wing County	170,550	100,645
	<u>\$ 1,271,706</u>	<u>\$ 1,187,567</u>

Following is a schedule of the automation repair and maintenance which allocates the reserve and the annual interest earned to each branch for 2008:

BRANCH	<u>2007</u>	<u>2008</u>			BALANCE
	BALANCE	INTEREST EARNED	REVENUE EARNED	EXPENSE PAID	
Bemidji	\$ 19,185	\$ 842	\$ 11,388	\$ 8,298	\$ 23,117
Blackduck	9,950	437	2,173	2,221	10,339
Brainerd	27,389	1,203	8,337	8,327	28,602
Cass Lake	3,617	159	1,142	302	4,616
Kitchigami Regional Library	31,160	1,369	-	7,587	24,942
Longville	10,075	443	2,152	703	11,967
Park Rapids	10,539	463	5,839	5,794	11,047
Pine River	9,851	433	2,425	641	12,068
Wadena	21,104	927	3,066	499	24,598
Walker	9,495	418	2,184	461	11,636
Total	<u>\$ 152,365</u>	<u>\$ 6,694</u>	<u>\$ 38,706</u>	<u>\$ 34,833</u>	<u>\$ 162,932</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.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 8 RISK MANAGEMENT (CONTINUED)

The Library books and materials are reported in the financial statements at estimated cost. However, the Library has these assets insured for approximately \$10,800,000. There has been no reduction in insurance coverage from the previous year in any of the Library's policies.

NOTE 9 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.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 9 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Plan Description (Continued)

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 were required to contribute 9.10% and 6.0%, respectively, of their annual covered salary in 2008. The Library is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 6.5% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan will increase to 6.75% effective January 1, 2009. The Library's contributions to the Public Employees Retirement Fund for the years ending December 31, 2008, 2007, and 2006, were \$74,128, \$67,854, and \$61,770, respectively. The Library's contributions were equal to contractually required contributions for each year as set by state statute.

NOTE 10 DEFERRED REVENUE

Deferred revenue of \$284,420 as of December 31, 2008, represents state refunds received in the fourth quarter of 2008, earmarked for the first quarter of 2009.

NOTE 11 PRIOR PERIOD ADJUSTMENT

In the Governmental Funds, the December 31, 2007, Fund Balance was restated (decreased) to reflect the reclassification of December 31, 2007, Accrued Compensated Absences from a long-term liability to a current liability in the amount of \$47,046.

SUPPLEMENTARY INFORMATION SECTION

**KITCHIGAMI REGIONAL LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2008**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL BALANCE	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				
Intergovernmental				
State	\$ 564,145	\$ 564,145	\$ 711,967	\$ 147,822
Local	1,783,005	1,783,005	1,738,829	(44,176)
Interest, Dividends, and Investments	71,000	71,000	67,984	(3,016)
Sales	-	-	9,628	9,628
Automation	19,500	19,500	42,366	22,866
Donations/Refunds/Miscellaneous	-	-	73,259	73,259
Total Revenues	<u>2,437,650</u>	<u>2,437,650</u>	<u>2,644,033</u>	<u>206,383</u>
EXPENDITURES				
Salaries				
Branch Library	844,678	844,678	831,577	13,101
Regional	299,713	299,713	315,725	(16,012)
Mobil Library	51,198	51,198	48,536	2,662
Employee Benefits	274,985	274,985	286,985	(12,000)
Library Operations	249,591	249,591	183,365	66,226
Building	34,000	34,000	26,755	7,245
Vehicle	46,790	46,790	44,413	2,377
Library Materials	64,685	64,685	71,252	(6,567)
Board	40,000	40,000	118,487	(78,487)
Miscellaneous	18,000	18,000	39,223	(21,223)
Capital Outlay	364,601	364,601	352,509	12,092
Total Expenditures	<u>2,288,241</u>	<u>2,288,241</u>	<u>2,318,827</u>	<u>(30,586)</u>
EXCESS OF REVENUES OVER EXPENDITURES	149,409	149,409	325,206	175,797
Fund Balance - Beginning of Year	2,374,762	2,374,762	2,374,762	-
Prior Period Adjustment	-	-	(47,046)	(47,046)
FUND BALANCE - END OF YEAR	<u><u>\$ 2,524,171</u></u>	<u><u>\$ 2,524,171</u></u>	<u><u>\$ 2,652,922</u></u>	<u><u>\$ 128,751</u></u>

**KITCHIGAMI REGIONAL LIBRARY
 DETAILED REVENUE AND EXPENSE SCHEDULE - LIBRARY-WIDE
 YEAR ENDED DECEMBER 31, 2008
 (WITH COMPARATIVE ACTUAL AMOUNTS YEAR ENDED DECEMBER 31, 2007)**

	<u>2008</u>	<u>2007</u>
INTERGOVERNMENTAL AND LOCAL REVENUE		
State		
State Aid	\$ 624,854	\$ 452,119
Special/Grants	87,113	41,903
Total State	<u>711,967</u>	<u>494,022</u>
County		
Crow Wing	548,044	513,164
Cass	320,641	301,391
Hubbard	191,924	182,774
Beltrami	298,211	287,394
Wadena	90,587	88,306
Total County	<u>1,449,407</u>	<u>1,373,029</u>
City		
Brainerd	71,002	70,847
Bemidji	101,284	98,334
Wadena	49,140	49,140
Park Rapids	26,878	26,878
Walker	10,070	10,071
Pine River	9,698	9,698
Blackduck	10,156	9,860
Longville	6,096	6,096
Cass Lake	5,098	7,599
Total City	<u>289,422</u>	<u>288,523</u>
Total Intergovernmental and Local Revenue	<u>2,450,796</u>	<u>2,155,574</u>
OTHER REVENUE		
Interest on Savings	65,950	80,890
Endowment Investment Income	2,034	7,940
Automation	42,366	30,211
Sales		
Copies and Faxes	9,628	9,720
Miscellaneous Gifts and Other	73,259	82,451
Total Other Revenue	<u>193,237</u>	<u>211,212</u>
Total Revenues	<u>\$ 2,644,033</u>	<u>\$ 2,366,786</u>

**KITCHIGAMI REGIONAL LIBRARY
 DETAILED REVENUE AND EXPENSE SCHEDULE - LIBRARY-WIDE
 YEAR ENDED DECEMBER 31, 2008
 (WITH COMPARATIVE ACTUAL AMOUNTS YEAR ENDED DECEMBER 31, 2007)
 (CONTINUED)**

	<u>2008</u>	<u>2007</u>
EXPENSES		
Library Materials		
Periodicals and Papers	\$ 71,252	\$ 32,581
Total State	<u>71,252</u>	<u>32,581</u>
Library Operations		
Automation Operating Costs	71,926	8,025
Communications/Dataline/Fax	15,458	15,044
Postage	5,033	7,013
Library Supplies	9,308	30,482
Office Supplies	10,889	7,099
MARC/OCLC Expense	2,813	11,500
Summer Reading Program	-	2,410
Promotion	198	320
Photocopy Supplies	1,863	2,127
Computer and Fax Supplies	65,125	9,812
Printing	752	-
Total Library Operations	<u>183,365</u>	<u>93,832</u>
Vehicle		
Auto/Mobile Library/Readmobile Gas and Oil	24,440	21,305
Auto/Mobile Library/Readmobile Repairs	11,901	28,780
Auto/Mobile Library Insurance	8,072	8,933
Total Vehicle	<u>44,413</u>	<u>59,018</u>
Building		
Insurance - Contents and Liability	14,185	17,156
Repairs and Maintenance	5,009	7,119
Electric	3,441	3,969
Gas	2,286	1,732
Sanitation/Disposal	1,033	922
Sewer	544	481
Water	257	126
Total Building	<u>26,755</u>	<u>31,505</u>
Board		
Meetings	4,757	4,195
Professional Fees and Dues/Special Projects	111,333	39,096
Insurance	2,397	2,559
Total Board	<u>118,487</u>	<u>45,850</u>
Branch Salaries		
Bemidji	205,568	182,809
Brainerd	265,579	323,550

**KITCHIGAMI REGIONAL LIBRARY
 DETAILED REVENUE AND EXPENSE SCHEDULE - LIBRARY-WIDE
 YEAR ENDED DECEMBER 31, 2008
 (WITH COMPARATIVE ACTUAL AMOUNTS YEAR ENDED DECEMBER 31, 2007)
 (CONTINUED)**

	2008	2007
EXPENSES (CONTINUED)		
Branch Salaries (Continued)		
Park Rapids	103,825	97,858
Wadena	59,211	24,265
Pine River	55,899	53,468
Walker	48,040	37,415
Longville	32,268	31,797
Blackduck	34,451	29,837
Cass Lake	26,736	23,601
Total Branch Salaries	831,577	804,600
Regional Salaries		
System Support	141,347	97,079
Technical Services	115,685	116,009
Interlibrary Loan	39,943	53,385
Delivery	18,750	17,223
Total Regional Salaries	315,725	283,696
Mobile Library Salaries	48,536	36,271
Employee Benefits		
FICA	95,785	90,801
Health Insurance	62,149	59,734
PERA	86,649	67,854
Workers' Compensation	19,021	17,062
Staff Development/Conferences/Other	21,411	12,597
Unemployment	1,970	14,070
Total Employee Benefits	286,985	262,118
Miscellaneous		
Meetings	3,336	4,268
Travel	185	2,843
Investment Fees	850	815
Recruiting	8,948	9,852
Other	-	7,657
Loss on Investments	25,904	-
Total Miscellaneous	39,223	25,435
Depreciation		
Books and Materials	374,901	365,678
Buildings and Equipment	109,807	103,918
Total Depreciation	484,708	469,596
Total Expenses	\$ 2,451,026	\$ 2,144,502

OTHER REPORTS SECTION

MATHIAS C. JUSTIN, LTD.
Certified Public Accountants

Mick Justin, CPA
Judith Moravec, CPA
Stephanie Murray, CPA

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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

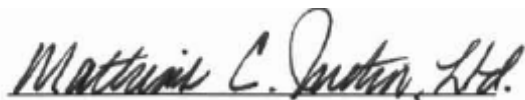
We have audited the financial statements of the Kitchigami Regional Library as of and for the year ended December 31, 2008, and have issued our report thereon dated May 13, 2009.

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, 2008.

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 13, 2009