

KITCHIGAMI REGIONAL LIBRARY

FINANCIAL STATEMENTS

DECEMBER 31, 2009

KITCHIGAMI REGIONAL LIBRARY

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INTRODUCTORY SECTION

**KITCHIGAMI REGIONAL LIBRARY
OFFICIAL DIRECTORY
DECEMBER 31, 2009**

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

Jim Lucachick (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	Jim Sabas	City of Pine River
David Schermerhorn (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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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, each major fund, and the aggregate remaining fund information of the Kitchigami Regional Library as of and for the year ended December 31, 2009, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 the 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.

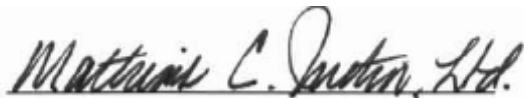
We were unable to audit the Library's books and materials assets as the Library does not maintain records that provide complete accounting for the historical cost of these assets. This is a departure from accounting principles generally accepted in the United States of America and the effects on the 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, each major fund, and the aggregate remaining fund information of the Library as of December 31, 2009, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2010, on our consideration of the Library's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require the management's discussion and analysis and budgetary comparison information on pages 4 through 6 and page 23 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 as a whole. The Introductory Section and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the 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, 2010

**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,	
	2009	2008
Current Assets	\$ 2,112,476	\$ 1,823,382
Capital Assets (Net)	2,927,529	3,064,044
Restricted Assets	1,481,959	1,334,475
Total Assets	<u>6,521,964</u>	<u>6,221,901</u>
Long-Term Debt	-	-
Other Liabilities	223,297	504,935
Total Liabilities	<u>223,297</u>	<u>504,935</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	2,927,529	3,049,984
Restricted by Board	1,481,959	1,334,475
Unrestricted	1,889,179	1,332,507
Total Net Assets	<u>\$ 6,298,667</u>	<u>\$ 5,716,966</u>
Revenue		
State	966,068	711,967
Local	1,795,949	1,738,829
Other	205,076	193,237
Total Revenue	<u>2,967,093</u>	<u>2,644,033</u>
Expenses - Library Services	<u>2,385,392</u>	<u>2,451,026</u>
CHANGE IN NET ASSETS	<u>\$ 581,701</u>	<u>\$ 193,007</u>

KITCHIGAMI REGIONAL LIBRARY MANAGEMENT'S DISCUSSION AND ANALYSIS

The Library as a Whole

- Kitchigami Regional Library's net assets increased by \$581,701 this year to \$6,298,667 compared to \$5,716,966 in 2008. The primary reason for the increase was an excess of state revenue over approved expenditures, unbudgeted donations, and special state revenues.
- The Library's primary source of revenue was city and county levies, which represent 64% of total revenue compared to 66% last year. State basic aid, telecommunications, and special grants represent 30% of total revenue.
- Employee costs, which represent 70% of the Library's expenses, increased to \$1,532,877 from \$1,482,823 in 2008.
- Depreciation, including the Library Materials, was the second largest expense category; at \$490,042, it is 21% of the total expenses
- The operational expenditures supported circulation of 913,047 items in 2009, a 7.11% increase, and 20,321 interlibrary loan items were borrowed and loaned. Our interlibrary loans borrowed decreased by 20%, while our loans increased 8%; however Kitchigami Regional Library remains a net borrower in the statewide ILL system. At the end of 2009, the library's collections contained 299,866 items.

The Library's Funds

Changes to Kitchigami Regional Library's funds are reported on pages 7 and 8 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 2009, 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 slightly.
- The full benefits of the increase to State Regional Library Basic System Support were received in 2009.
- State Regional Library Telecommunications Aid remained higher than anticipated.
- Unbudgeted Legacy Fund Revenue of \$134,144, one-half of the state fiscal year 2010 allocation, was received.

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

The Library Budgetary Highlights (Continued)

The significant changes in expenditures were:

- The group's new health plan for full-time employees increased expenditures for health insurance from \$62,149 in 2008 to \$133,587 in 2009.
- Continued efforts to control or reduce basic operating costs.
- Increased expenditure on books, magazines, and other library materials.
- Increased interlibrary loan lending activity and costs due to our status as a gateway library for Minnesota Link.
- Increased expenditures on branch Library programming of \$34,859 as a result of the unanticipated revenue from the State of Minnesota Legacy Amendment Funds for Arts and Cultural Heritage.
- Lower than budgeted expenditure on fuel reduced mobile library and delivery costs.
- A long-term vacancy in Technical Service Management was filled in November 2009 and several automation items were deferred until 2010.

Capital Assets and Debt

At the end of 2009, the Library had a net investment of \$2,927,529 invested in property which consisted of, its headquarters building, furniture and equipment, vehicles, and library collections.

The Library added \$338,468 in new collection items, including 2,783 items purchased with gift funds and 26,473 items from the Kitchigami Regional Library's budget. At the end of 2009, \$17,061 of the Library's funds were carried forward into 2010 for materials; \$18,105 in gift funds were carried forward into 2010. All materials purchased with donated funds are housed in the branch library that received the donations. The Library continues to provide eight electronic information databases for Kitchigami Regional Library resident borrower cardholders. These databases, as well as the rotating collections of large print books and audio books, are shared collections that are jointly funded by city, county, and state funds.

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:

The new joint powers agreement between the signatory cities and counties of Kitchigami Regional Library was signed in January 2010. This agreement reallocates some financial responsibilities and transfers ownership of the branch library collections to those cities. This will result in significant changes for future audited statements.

In July 2009 the State of Minnesota included regional public library systems in the first biennium of the Legacy Amendment Fund. The allocation for regional public library systems is distributed according to the state formula for RLBSS. For the first state fiscal year, the Library will receive \$268,288 to be used for public programs in the arts and cultural heritage. These funds were unanticipated and spending these funds within state's program restrictions and Kitchigami Regional Library's commitments and fiscal responsibility is proving to be a challenge as well as an extraordinary opportunity.

BASIC FINANCIAL STATEMENTS

**KITCHIGAMI REGIONAL LIBRARY
STATEMENT OF NET ASSETS
DECEMBER 31, 2009**

GOVERNMENTAL
ACTIVITIES

ASSETS

Cash and Cash Equivalents	\$ 2,027,285
Accounts and Grants Receivable	71,736
Prepaid Expenses	13,455
Capital Assets:	
Land	34,566
Buildings and Improvements	603,005
Vehicles	270,764
Furniture, Fixtures, and Equipment	579,164
Library Collections	5,911,450
Less Accumulated Depreciation	(4,471,420)
Restricted Assets:	
Cash and Cash Equivalents	1,409,533
Minnesota Library Foundation - Endowment	<u>72,426</u>
 Total Assets	 <u>6,521,964</u>

LIABILITIES

Accounts Payable	57,845
Sales Tax Payable	460
Accrued Payroll	111,362
Accrued Compensated Absences	<u>53,630</u>
 Total Liabilities	 <u>223,297</u>

NET ASSETS

Investment in Capital Assets, Net of Related Debt	2,927,529
Restricted by Board	1,481,959
Unrestricted	<u>1,889,179</u>
 Total Net Assets	 <u><u>\$ 6,298,667</u></u>

**KITCHIGAMI REGIONAL LIBRARY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2009**

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	\$ 2,206,958	\$ 138,276	\$ 966,068	\$ (1,102,614)
Building	41,609	-	-	(41,609)
Vehicle	53,962	-	-	(53,962)
Library Materials	25,027	-	-	(25,027)
Board	49,026	-	-	(49,026)
Miscellaneous	8,810	-	-	(8,810)
	-	-	-	-
Total Governmental Activities	<u>\$ 2,385,392</u>	<u>\$ 138,276</u>	<u>\$ 966,068</u>	<u>(1,281,048)</u>
General Revenues:				
Allotments from Participating Governments				1,795,949
Interest, Dividends, and Investments				<u>66,800</u>
Total General Revenues				<u>1,862,749</u>
INCREASE IN NET ASSETS				581,701
Net Assets - Beginning				<u>5,716,966</u>
NET ASSETS - ENDING				<u>\$ 6,298,667</u>

**KITCHIGAMI REGIONAL LIBRARY
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009**

	GENERAL	SPECIAL REVENUE	TOTAL
ASSETS			
Cash and Cash Equivalents	\$ 2,070,969	\$ 55,601	\$ 2,126,570
Accounts and Grants Receivable	18,078	53,658	71,736
Prepaid Expenses	13,455	-	13,455
Restricted Assets:			
Cash and Cash Equivalents	1,310,248	-	1,310,248
Minnesota Library Foundation - Endowment	72,426	-	72,426
	<u>\$ 3,485,176</u>	<u>\$ 109,259</u>	<u>\$ 3,594,435</u>
Total Assets	<u>\$ 3,485,176</u>	<u>\$ 109,259</u>	<u>\$ 3,594,435</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts Payable	\$ 47,871	\$ 9,974	\$ 57,845
Sales Tax Payable	460	-	460
Accrued Payroll	111,362	-	111,362
Accrued Compensated Absences	53,630	-	53,630
	<u>213,323</u>	<u>9,974</u>	<u>223,297</u>
Total Liabilities	<u>213,323</u>	<u>9,974</u>	<u>223,297</u>
Fund Balance:			
Unreserved, Reported In			
General Fund	3,271,853	-	3,271,853
Special Revenue Fund	-	99,285	99,285
	<u>3,271,853</u>	<u>99,285</u>	<u>3,371,138</u>
Total Fund Balance	<u>3,271,853</u>	<u>99,285</u>	<u>3,371,138</u>
Total Liabilities and Fund Balance	<u>\$ 3,485,176</u>	<u>\$ 109,259</u>	<u>\$ 3,594,435</u>

**KITCHIGAMI REGIONAL LIBRARY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2009**

	GENERAL	SPECIAL REVENUE	TOTAL
REVENUES			
State Aid	\$ 831,924	\$ 134,144	\$ 966,068
Local Aid	1,795,949	-	1,795,949
Interest/Dividends/Investments	66,800	-	66,800
Sales	9,512	-	9,512
Automation	40,750	-	40,750
Donations/Refunds/Miscellaneous	88,014	-	88,014
	<u>2,832,949</u>	<u>134,144</u>	<u>2,967,093</u>
Total Revenue			
EXPENDITURES			
Current			
Library Operations	2,068,989	34,859	2,103,848
Building	27,236	-	27,236
Vehicle	34,930	-	34,930
Library Materials	25,027	-	25,027
Board	49,026	-	49,026
Miscellaneous	8,810	-	8,810
	<u>2,214,018</u>	<u>34,859</u>	<u>2,248,877</u>
Total Expenditures			
NET INCREASE IN FUND BALANCE	618,931	99,285	718,216
Fund Balance - Beginning of Year	<u>2,652,922</u>	<u>-</u>	<u>2,652,922</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 3,271,853</u></u>	<u><u>\$ 99,285</u></u>	<u><u>\$ 3,371,138</u></u>

**KITCHIGAMI REGIONAL LIBRARY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2009**

Total Fund Balances - Governmental Funds	\$ 3,371,138
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	7,398,949
Less: Accumulated Depreciation	<u>(4,471,420)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u>\$ 6,298,667</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, 2009**

Net Increase in Fund Balance - Governmental funds \$ 718,216

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	353,527
Depreciation Expense	<u>(490,042)</u>

INCREASE IN NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 581,701

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

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, 2009**

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 60 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 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 funds:

General Fund – The General Fund is the general operating fund of the Library. It is used to account for financial resources except those required to be accounted for in another fund.

Special Revenue Fund – The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

D. Financial Statement Amounts

Bank Deposits and Investments – The Library has defined cash and cash equivalents to include cash on hand, demand deposits, certificates of deposit, money market funds, and short-term investments 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.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

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

D. Financial Statement Amounts (Continued)

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.

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 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 leave.

All vacation pay is accrued when incurred in the library-wide financial statements and the governmental funds.

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.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 2 DEPOSITS AND INVESTMENTS

A. Deposits

The Library maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is displayed on the financial statements as "Cash and Investments." Interest is allocated based on management estimate of interest earned by fund. In accordance with *Minnesota Statutes* the Library maintains deposits at financial institutions which are authorized by the Library's Board of Directors.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. The Library has a deposit policy for custodial credit risk which follows *Minnesota Statutes* for deposits.

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

A number of recent temporary changes were made to Federal Deposit Insurance Corporation (FDIC) deposit coverage in 2008. First, the FDIC coverage limit for depositors was raised to \$250,000. All of the prior rules apply to government depositors. The \$250,000 FDIC coverage limit is scheduled to remain in effect through December 31, 2013. On January 1, 2014, the standard insurance amount is scheduled to return to \$100,000 per depositor for all account categories except for certain retirement accounts.

The Transaction Account Guarantee Program, initiated in 2008, provided unlimited coverage for "non-interest bearing transaction accounts," (including IOLTA (Attorney Trust) accounts and NOW accounts that pay up to 0.5% interest) in participating banks. A list of banks that opted out of the program can be found at:

www.fdic.gov/regulations/resources/TLGP/outout.html. The unlimited coverage for non-interest bearing transaction accounts is scheduled to terminate on June 30, 2010.

Authorized collateral includes:

- U.S. government treasury bills, notes, or bonds;
- issues of a U.S. government agency or instruments that are quoted by a recognized industry quotation service available to the government entity;
- a general obligation of a state or local government, with taxing powers, rated "A" or better;
- a revenue obligation of a state or local government, with taxing powers, rate "AA" or better;
- unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity;
- an irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank's public debt is rated "AA" or better by Moody's or Standard and Poor's; or
- time deposits insured by any federal agency.

The bank balance of Library deposits at December 31, 2009, was covered by federal depository insurance or by surety bonds and collateral in accordance with *Minnesota Statutes*.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

Deposit balances at December 31, 2009, are as follows:

Bank Balance	Carrying Amount
\$ 3,441,022	\$ 3,436,818

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	1st National Bank - Walker	Unity Bank Rush City	Total
Bank Balance	\$ 3,366,648	\$ 17,390	\$ 32,458	\$ 24,526	\$ 3,441,022
Collateral	\$ 3,440,000	\$ -	\$ -	\$ -	
FDIC Insurance	250,000	250,000	250,000	250,000	
Total Collateral and Insurance	3,690,000	250,000	250,000	250,000	
(Under) Collateralized	\$ -	\$ -	\$ -	\$ -	

Following is the change in the carrying amounts of cash balances during 2009:

DESCRIPTION	December 31, 2008	Net Increase	Net Decrease	December 31, 2009
Checking	\$ 447,014	\$ 144,020	\$ -	\$ 591,034
Money Market and Certificates of Deposit	2,590,209	255,575	-	2,845,784
Total	\$ 3,037,223	\$ 399,595	\$ -	\$ 3,436,818

B. Investments

The Library has an investment policy and is permitted to invest its idle funds as authorized by Minnesota Statutes 118A.04 and 118A.05 as follows:

- Governmental bonds, notes, bills, mortgages, and other securities, which were direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, excluding mortgage-backed securities defined as "high risk";
- General obligations of a state or local government with taxing powers which was rated "A" or better by a national bond rating service;
- Revenue obligations of a state or local government with taxing powers which was rated "AA" or better by a national bond rating service;
- General obligations of the Minnesota Housing Finance Agency which was a moral obligation of the State of Minnesota and is rated "A" or better by a national bond rating service;
- Commercial papers issued by the United States corporation or its Canadian subsidiaries and that was rated in the highest quality category by at least two nationally recognized rating agencies, and matures in 270 days or less; Time deposits fully insured by the Federal Deposit Insurance Corporation;
- Bankers acceptances issued by United States banks;

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

- Its own temporary obligations issued under Minn. Stat. §§ 429.091, subd. 7 (special assessments), 469.178 subd. 5 (tax increment bonds), or 475.61, subd. 6.

Interest Rate Risk

The risk is that changes in interest rates could adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Library manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities to meet cash requirements for ongoing operations.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the Library's policy to invest only in securities that meet the ratings requirements set by statute.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library is not exposed to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the Library's investment in a single issuer. The Library places no limit on the amount that it may invest in any one issuer.

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:

	December 31, 2008	Increase	Decrease	December 31, 2009
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	564,105	15,059	-	579,164
Books and Materials (Collections)	5,791,190	338,468	218,208	5,911,450
Total Fixed Assets	<u>7,263,630</u>	<u>353,527</u>	<u>218,208</u>	<u>7,398,949</u>

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 4 FIXED ASSETS (CONTINUED)

A summary of changes in Fixed Assets is as follows: (Continued)

	December 31, 2008	Increase	Decrease	December 31, 2009
Less: Accumulated Depreciation				
Buildings and Improvements	171,536	14,373	-	185,909
Vehicles	164,152	19,032	-	183,184
Furniture and Fixtures	375,128	70,365	-	445,493
Books and Materials (Collections)	3,488,770	386,272	218,208	3,656,834
Total Accumulated Depreciation	<u>4,199,586</u>	<u>490,042</u>	<u>218,208</u>	<u>4,471,420</u>
Net Book Value	<u>\$ 3,064,044</u>	<u>\$ (136,515)</u>	<u>\$ -</u>	<u>\$ 2,927,529</u>

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

	Depreciation	Capital Outlay
Buildings	\$ 14,373	\$ -
Vehicles	19,032	-
Library Operations	<u>456,637</u>	<u>353,527</u>
Total	<u>\$ 490,042</u>	<u>\$ 353,527</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.

NOTE 6 RESTRICTED FUNDS

Restricted funds, in the Statement of Net Assets, are established by the Board for specific purposes. Following is a list of restricted funds and balances at December 31, 2009, with comparative actual amounts for 2008:

	2009	2008
Automation	\$ 378,452	\$ 371,104
Mobile Library	133,400	127,583
Vehicle	120,795	114,978
Automation Maintenance	179,623	157,189
Loan Security	31,347	31,347
Building Maintenance	23,873	23,173
Software Accounting	24,801	24,574
Library Building	191,070	188,162
KRL Endowment Fund	72,426	62,769
Headquarters' Gift	277	277
Crow Wing County	200,972	170,550
Summer Reading	25,638	-
Legacy Grant	99,285	-
	<u>\$ 1,481,959</u>	<u>\$ 1,271,706</u>

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

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 2009:

Branch	2008		2009		
	Balance	Interest Earned	Revenue Earned	Expense Paid	Balance
Bemidji	\$ 23,117	\$ 317	\$ 10,703	\$ 7,781	\$ 26,356
Blackduck	10,339	142	2,882	487	12,876
Brainerd	28,602	392	9,389	615	37,768
Cass Lake	4,616	63	1,602	-	6,281
Kitchigami Regional Library	24,942	342	-	6,358	18,926
Longville	11,967	164	2,505	1,739	12,897
Park Rapids	11,047	151	6,255	6,424	11,029
Pine River	12,068	165	1,888	364	13,757
Wadena	24,598	337	3,334	2,523	25,746
Walker	11,636	159	2,192	-	13,987
Total	<u>\$ 162,932</u>	<u>\$ 2,232</u>	<u>\$ 40,750</u>	<u>\$ 26,291</u>	<u>\$ 179,623</u>

NOTE 7 STEWARDSHIP AND ACCOUNTABILITY

No budgetary disclosures required. No budget was presented for the Special Revenue Fund.

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 \$11,400,000. 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.

**KITCHIGAMI REGIONAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 9 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Plan Description (Continued)

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, 2009**

NOTE 9 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 were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2009. The Library is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members and 6.75% for Coordinated Plan PERF members. The Library's contributions to the Public Employees Retirement Fund for the years ending December 31, 2009, 2008, and 2007, were \$78,662, \$74,128, and \$67,854, respectively. The Library's contributions were equal to contractually required contributions for each year as set by state statute.

REQUIRED SUPPLEMENTARY INFORMATION

**KITCHIGAMI REGIONAL LIBRARY
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED DECEMBER 31, 2009**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL BALANCE	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				
Intergovernmental				
State	\$ 747,097	\$ 747,097	\$ 831,924	\$ 84,827
Local	1,795,949	1,795,949	1,795,949	-
Interest, Dividends, and Investments	60,000	60,000	66,800	6,800
Sales	6,500	6,500	9,512	3,012
Automation	62,050	62,050	40,750	(21,300)
Donations/Refunds/Miscellaneous	21,200	21,200	88,014	66,814
Total Revenues	<u>2,692,796</u>	<u>2,692,796</u>	<u>2,832,949</u>	<u>140,153</u>
EXPENDITURES				
Salaries				
Branch Library	881,798	881,798	858,885	22,913
Regional	325,883	325,883	290,173	35,710
Mobil Library	48,267	48,267	47,993	274
Employee Benefits	341,831	341,831	335,826	6,005
Library Operations	439,028	439,028	182,585	256,443
Building	38,069	38,069	27,236	10,833
Vehicle/Mobile Library	70,016	70,016	34,930	35,086
Library Materials	25,167	25,167	25,027	140
Board	54,707	54,707	49,026	5,681
Miscellaneous	22,400	22,400	8,810	13,590
Capital Outlay	410,938	410,938	353,528	57,410
Total Expenditures	<u>2,658,104</u>	<u>2,658,104</u>	<u>2,214,019</u>	<u>444,085</u>
EXCESS OF REVENUES OVER EXPENDITURES	34,692	34,692	618,930	584,238
Fund Balance - Beginning of Year	<u>2,652,922</u>	<u>2,652,922</u>	<u>2,652,922</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 2,687,614</u></u>	<u><u>\$ 2,687,614</u></u>	<u><u>\$ 3,271,852</u></u>	<u><u>\$ 584,238</u></u>

**KITCHIGAMI REGIONAL LIBRARY
 DETAILED REVENUE AND EXPENSE SCHEDULE - LIBRARY-WIDE
 YEAR ENDED DECEMBER 31, 2009
 (WITH COMPARATIVE ACTUAL AMOUNTS YEAR ENDED DECEMBER 31, 2008)**

	2009	2008
INTERGOVERNMENTAL AND LOCAL REVENUE		
State		
State Aid	\$ 781,285	\$ 624,854
Special/Grants	184,783	87,113
Total State	966,068	711,967
County		
Crow Wing	565,098	548,044
Cass	326,795	320,641
Hubbard	194,424	191,924
Beltrami	309,841	298,211
Wadena	90,587	90,587
Total County	1,486,745	1,449,407
City		
Brainerd	70,089	71,002
Bemidji	105,234	101,284
Wadena	54,054	49,140
Park Rapids	35,563	26,878
Walker	11,079	10,070
Pine River	9,700	9,698
Blackduck	11,172	10,156
Longville	6,705	6,096
Cass Lake	5,608	5,098
Total City	309,204	289,422
Total Intergovernmental and Local Revenue	2,762,017	2,450,796
OTHER REVENUE		
Interest on Savings	56,341	65,950
Endowment Investment Income	10,459	2,034
Automation	40,750	42,366
Sales		
Copies and Faxes	9,512	9,628
Miscellaneous Gifts and Other	88,014	73,259
Total Other Revenue	205,076	193,237
Total Revenues	\$ 2,967,093	\$ 2,644,033

**KITCHIGAMI REGIONAL LIBRARY
 DETAILED REVENUE AND EXPENSE SCHEDULE - LIBRARY-WIDE
 YEAR ENDED DECEMBER 31, 2009
 (WITH COMPARATIVE ACTUAL AMOUNTS YEAR ENDED DECEMBER 31, 2008)
 (CONTINUED)**

	2009	2008
EXPENSES		
Library Materials		
Periodicals and Papers	\$ 25,027	\$ 71,252
Total Library Materials	25,027	71,252
Library Operations		
Automation Operating Costs	94,271	71,926
Communications/Dataline/Fax	18,287	15,458
Postage	8,157	5,033
Library Supplies	11,574	9,308
Office Supplies	6,641	10,889
MARC/OCLC Expense	5,620	2,813
Summer Reading Program	1,769	-
ILS Maintenance	37,400	-
Senior Outreach	5,888	-
Gates Reserve	16,962	-
Promotion	1,062	198
Photocopy Supplies	-	1,863
Computer Software/Fax Supplies	9,813	65,125
Printing	-	752
Total Library Operations	217,444	183,365
Vehicle		
Auto/Mobile Library/Readmobile Gas and Oil	16,174	24,440
Auto/Mobile Library/Readmobile Repairs	12,845	11,901
Auto/Mobile Library Insurance	5,911	8,072
Total Vehicle	34,930	44,413
Building		
Insurance - Contents and Liability	15,566	14,185
Repairs and Maintenance	3,945	5,009
Electric	4,663	3,441
Gas	1,419	2,286
Sanitation/Disposal	893	1,033
Sewer	504	544
Water	246	257
Total Building	27,236	26,755
Board		
Meetings	5,033	4,757
Professional Fees and Dues/Special Projects	41,594	111,333
Insurance	2,399	2,397
Total Board	49,026	118,487
Branch Salaries		
Bemidji	203,503	205,568
Brainerd	286,342	265,579

**KITCHIGAMI REGIONAL LIBRARY
 DETAILED REVENUE AND EXPENSE SCHEDULE - LIBRARY-WIDE
 YEAR ENDED DECEMBER 31, 2009
 (WITH COMPARATIVE ACTUAL AMOUNTS YEAR ENDED DECEMBER 31, 2008)
 (CONTINUED)**

	2009	2008
EXPENSES (CONTINUED)		
Branch Salaries (Continued)		
Park Rapids	108,389	103,825
Wadena	61,709	59,211
Pine River	56,339	55,899
Walker	48,802	48,040
Longville	33,464	32,268
Blackduck	33,642	34,451
Cass Lake	26,695	26,736
Total Branch Salaries	858,885	831,577
Regional Salaries		
System Support	145,990	141,347
Technical Services	86,200	115,685
Interlibrary Loan	40,406	39,943
Delivery	17,577	18,750
Total Regional Salaries	290,173	315,725
Mobile Library Salaries	47,993	48,536
Employee Benefits		
FICA	94,474	95,785
Health Benefits	133,587	62,149
PERA	66,237	86,649
Workers' Compensation	14,142	19,021
Staff Development/Conferences/Other	22,617	21,411
Unemployment	4,769	1,970
Total Employee Benefits	335,826	286,985
Miscellaneous		
Meetings	1,025	3,336
Travel	165	185
Investment Fees	802	850
Recruiting	6,818	8,948
Loss on Investments	-	25,904
Total Miscellaneous	8,810	39,223
Depreciation		
Books and Materials	386,272	374,901
Buildings and Equipment	103,770	109,807
Total Depreciation	490,042	484,708
Total Expenses	\$ 2,385,392	\$ 2,451,026

COMPLIANCE REPORT SECTION

MATHIAS C. JUSTIN, LTD.
Certified Public Accountants

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kitchigami Regional Library, Minnesota, as of and for the year ended December 31, 2009, which collectively comprise the Library's basic financial statements and have issued our report thereon dated May 13, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Segregation of Duties

Adequate segregation of the Library's accounting and administrative staff does not exist due the size of the Library and limited staff size which precludes certain internal controls that would be preferred if the staff were large enough to provide optimum segregation of duties.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Kitchigami Regional Library in a separate letter dated May 13, 2010.

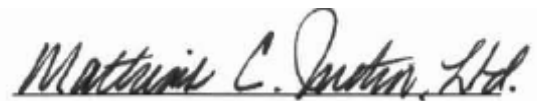
Minnesota Legal Compliance

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 main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, 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.

This report is intended solely for the information and use of the audit committee, and management of the Kitchigami Regional Library, and should not be used by anyone other than these specified parties.



Mathias C. Justin, Ltd.
Certified Public Accountants

Pequot Lakes, Minnesota
May 13, 2010