

MANHATTAN PUBLIC LIBRARY

Manhattan, Kansas

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

For the Year Ended December 31, 2011

MANHATTAN PUBLIC LIBRARY

Manhattan, Kansas
As of December 31, 2011

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MANHATTAN PUBLIC LIBRARY
Manhattan, Kansas
TABLE OF CONTENTS
As of December 31, 2011

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL	2 - 3
MANAGEMENT DISCUSSION AND ANALYSIS	4 - 5
GENERAL PURPOSE FINANCIAL STATEMENTS	
Statement of Net Assets	6
Statement of Activities	7
Balance Sheet	8
Statement of Revenue, Expenditures, and Changes in Fund Balance	9 - 10
Notes to Financial Statements	11 - 16
Budgetary Comparison	18 - 20



March 27, 2012

To the Board Members of the
Manhattan Public Library
Manhattan, Kansas

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Manhattan Public Library, as of and for the year ended December 31, 2011. These basic financial statements are the responsibility of the Manhattan Public Library's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with the 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 basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Manhattan Public Library, as of December 31, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 4 - 5 and 18 - 20, 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.

Varney & Associates
Certified Public Accountants



March 27, 2012

To the Board Members of the
Manhattan Public Library
Manhattan, Kansas

**Independent Auditors' 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**

We have audited the general purpose financial statements of the Manhattan Public Library, Manhattan, Kansas, as of and for the year ended December 31, 2011, and have issued our report thereon dated March 27, 2012. 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 Manhattan Public Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion on the internal control over financial reporting. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Manhattan Public 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*.

March 27, 2012
Manhattan Public Library
(Continued)

This report is intended solely for the information and use of management and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

Varney & Associates
Certified Public Accountants

Independent Auditors' Report

MANHATTAN PUBLIC LIBRARY
 Manhattan, Kansas
MANAGEMENT DISCUSSION AND ANALYSIS
 December 31, 2011

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 Statement of Net Assets and Statement of Activities are the *government-wide financial statements*. They provide information about the activities of the Library as a whole and present a longer-term view of the Library’s finances.

The Balance Sheet and Statement of Revenue, Expenditures, and Changes in Fund Balance are the *fund financial statements*. These statements focus on current financial resources and provide a more detailed view about the accountability of the Library’s sources and uses of funds for all governmental funds.

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 compares key financial information for the primary government in a condensed format between the current year and the prior year, in thousands of dollars:

	<u>2011</u>	<u>2010</u>
Assets		
Current assets	\$ 2,962	\$ 2,822
Investments	415	414
Capital assets	579	594
Total Assets	<u>\$ 3,956</u>	<u>\$ 3,830</u>
Liabilities		
Current liabilities	\$ 2,586	\$ 2,475
Noncurrent liabilities	322	73
Total Liabilities	<u>\$ 2,908</u>	<u>\$ 2,548</u>
Net Assets		
Unrestricted	\$ 452	\$ 671
Restricted	17	17
Invested in capital assets	579	594
Total Net Assets	<u>\$ 1,048</u>	<u>\$ 1,282</u>
Revenue		
Property taxes	\$ 2,436	\$ 2,416
Other	254	280
Total Revenue	<u>\$ 2,690</u>	<u>\$ 2,696</u>
Expenses	<u>2,923</u>	<u>2,526</u>
CHANGE IN NET ASSETS	<u>\$ (233)</u>	<u>\$ 170</u>

The library has three sources of revenue. Ninety-two percent of revenue comes from local property tax. Grants, fines and fees account for 5% of the revenue and endowment income provides the remaining 3%.

MANHATTAN PUBLIC LIBRARY
Manhattan, Kansas
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
December 31, 2011

The library's primary source of revenue comes from local property tax and is used for general operating expenses. In 2011 there was a 1% increase in the tax fund revenue and a 1.1% increase in property valuation, allowing for modest growth.

The retirement of the library director and business manager, both long term employees, combined with a delay in hiring replacements, resulted in unexpended revenues in salaries and employee benefits. Unexpended income in the tax fund will be carried over to capital improvements. Unexpended income in the employee benefit fund will be carried over to the same fund in 2012. Health insurance costs for the library will increase by 22% in 2012.

Revenue from grants, fines and fees exceeded expectations overall, although revenue from state aid and grants declined and a 5% decrease is expected in 2012.

Revenue from endowments and gifts was higher than anticipated, mostly due to larger distributions from the Manhattan Library Association and a designated grant.

Salaries and benefits continue to be the largest expenditure, but the percentage of the budget spent on salaries and benefits will decrease slightly in 2012. Again, due to retirements and new staff, but also due to minimal or no increase in cost of living or merit increases for staff over the past 3 years.

The percentage of expenditures for technology will increase.

Overall expenditures reflect the year's activity, including remodeling and consolidation of two public services desks to create efficiency and improve customer service. A corner of the library was also remodeled to expand the Friends of the Library's used book sale corner. The library received a grant for assistive technology upgrades. The City of Manhattan implemented a Facilities Conservation Improvement Program. Low cost federal funding allowed us to upgrade lighting to new standards and improve energy efficiency. The library will pay the City for the total cost of the library's share over the next ten years, beginning in 2012.

The 2012 budget continues support for modest growth. The use of library services continues to grow by all measures, including an 8% increase in the circulation of materials in 2011. The Board of Trustees, the Manhattan Library Foundation and Manhattan Library Association hired a fundraising consultant to conduct a feasibility study regarding the expansion of the children's library. Results of the study will guide decisions in the 2013 budget cycle.

MANHATTAN PUBLIC LIBRARY
 Manhattan, Kansas
STATEMENT OF NET ASSETS
 December 31, 2011

	ASSETS	
	<u>Primary Government</u>	<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Manhattan Library Foundation</u>
Assets		
Cash and cash equivalents	\$ 447,838	\$ 4,339
Taxes receivable	2,513,710	-
Investments	415,481	2,543,758
Capital assets - Net	579,493	-
TOTAL ASSETS	<u><u>\$ 3,956,522</u></u>	<u><u>\$ 2,548,097</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 72,331	\$ -
Compensated absences	67,234	-
Deferred revenue	2,513,710	-
FCIP - Reimbursement to City of Manhattan	254,710	-
Total Liabilities	<u><u>\$ 2,907,985</u></u>	<u><u>\$ -</u></u>
Net Assets		
Invested in capital assets	\$ 579,493	\$ -
Unrestricted	339,365	2,427,621
Restricted	129,679	120,476
Total Net Assets	<u><u>\$ 1,048,537</u></u>	<u><u>\$ 2,548,097</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,956,522</u></u>	<u><u>\$ 2,548,097</u></u>

Financial Statements

MANHATTAN PUBLIC LIBRARY
 Manhattan, Kansas
STATEMENT OF ACTIVITIES
 For the Year Ended December 31, 2011

	Primary Government	Component Unit
	Governmental Activities	Manhattan Library Foundation
Expenditure/Expenses		
Library operations		
Personnel services	\$ 1,790,299	\$ -
Commodities	316,293	-
Contractual services	432,484	3,959
Gifts to Manhattan Public Library	-	50,474
Reimbursements	293,059	-
Depreciation	91,147	-
Total Program Expenses	\$ 2,923,282	\$ 54,433
Program Revenues		
Charges for services	\$ 79,229	\$ -
Net Program Expenses	\$ 2,844,053	\$ 54,433
General Revenues		
Property taxes	\$ 2,436,150	\$ -
Intergovernmental	55,928	-
Investment earnings	7,238	71,256
Reimbursements	33,482	-
Gifts and bequests	77,739	70,425
Total General Revenues	\$ 2,610,537	\$ 141,681
Change in Net Assets	\$ (233,516)	\$ 87,248
NET ASSETS - BEGINNING OF THE YEAR	1,282,053	2,460,849
NET ASSETS - END OF THE YEAR	\$ 1,048,537	\$ 2,548,097

Financial Statements

MANHATTAN PUBLIC LIBRARY
 Manhattan, Kansas
BALANCE SHEET
 December 31, 2011

	General Fund	Employee Benefit Fund	Endowment Fund	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 80,059	\$ 139,068	\$ 81,761	\$ 146,950	\$ 447,838
Investments	-	-	303,247	112,234	415,481
TOTAL ASSETS	<u>\$ 80,059</u>	<u>\$ 139,068</u>	<u>\$ 385,008</u>	<u>\$ 259,184</u>	<u>\$ 863,319</u>
LIABILITIES AND FUND BALANCE					
Liabilities	\$ 46,183	\$ 26,148	\$ -	\$ -	\$ 72,331
Accounts payable					
Fund Balance					
Restricted for					
purchase of materials	\$ -	\$ -	\$ 16,759	\$ -	\$ 16,759
employee wages and benefits	-	112,920	-	-	112,920
Assigned	-	-	368,249	259,184	627,433
Unassigned	33,876	-	-	-	33,876
Total Fund Balance	<u>\$ 33,876</u>	<u>\$ 112,920</u>	<u>\$ 385,008</u>	<u>\$ 259,184</u>	<u>\$ 790,988</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 80,059</u>	<u>\$ 139,068</u>	<u>\$ 385,008</u>	<u>\$ 259,184</u>	<u>\$ 863,319</u>
Total Fund Balance - Modified Accrual Basis					\$ 790,988
Amounts reported in the statement of net assets are different because:					
Taxes receivable are included as an asset					2,513,710
Capital assets are not financial resources, and are not reported in the funds					579,493
Deferred revenues are included as a liability					(2,513,710)
Compensated absences are included as a liability					(67,234)
Net Assets of General Fund - Full Accrual Basis					<u>\$ 1,303,247</u>

The accompanying notes are an integral part of these financial statements.
 See Independent Auditors' Report.

Financial Statements

MANHATTAN PUBLIC LIBRARY
Manhattan, Kansas

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Year Ended December 31, 2011

	General Fund	Employee Benefit Fund	Endowment Fund	Other Governmental Funds	Total
Revenue					
Property taxes	\$ 1,996,150	\$ 440,000	\$ -	\$ -	\$ 2,436,150
Charges for services	-	-	-	19,846	19,846
Fines and fees	-	-	-	58,063	58,063
State aid and grants	-	-	5,000	50,928	55,928
Interest	-	-	835	6,403	7,238
Gifts and bequests	-	-	74,711	1,127	75,838
Reimbursements	3,449	-	24,128	5,905	33,482
Other miscellaneous	1,320	-	-	1,901	3,221
Total Revenue	\$ 2,000,919	\$ 440,000	\$ 104,674	\$ 144,173	\$ 2,689,766
Expenditures					
Salaries and employee benefits	\$ 1,379,371	\$ 416,787	\$ -	\$ -	\$ 1,796,158
Building and grounds	154,920	-	-	30,000	184,920
Technology	104,650	-	-	32,000	136,650
Materials	241,060	-	49,008	68,798	358,866
Services	-	-	-	11,250	11,250
Administrative	83,510	-	-	4,595	88,105
Gift/Special projects	-	-	29,582	16,037	45,619
Reimbursements	3,532	-	34,817	-	38,349
Total Expenditures	\$ 1,967,043	\$ 416,787	\$ 113,407	\$ 162,680	\$ 2,659,917

(Continued)

The accompanying notes are an integral part of these financial statements.
See Independent Auditors' Report.

Financial Statements

MANHATTAN PUBLIC LIBRARY
 Manhattan, Kansas
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE (CONTINUED)
 For the Year Ended December 31, 2011

	General Fund	Employee Benefit Fund	Endowment Fund	Other Governmental Funds	Total
Excess (Deficiency) of Revenue Over Expenditures	\$ 33,876	\$ 23,213	\$ (8,733)	\$ (18,507)	\$ 29,849
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	\$ 33,876	\$ 23,213	\$ (8,733)	\$ (18,507)	\$ 29,849
FUND BALANCE - BEGINNING OF THE YEAR	-	89,707	393,741	277,691	761,139
FUND BALANCE - END OF THE YEAR	\$ 33,876	\$ 112,920	\$ 385,008	\$ 259,184	\$ 790,988
Net Change in Fund Balances - Modified Accrual Basis					\$ 29,849

Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	76,633
Depreciation	(91,147)
Decrease in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	5,859
Change in Net Assets of General Fund - Full Accrual Basis	\$ 21,194

The accompanying notes are an integral part of these financial statements.
 See Independent Auditors' Report.

Financial Statements

MANHATTAN PUBLIC LIBRARY
Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

Note 1: Summary of Significant Accounting Policies

Reporting Entity

The Manhattan Public Library (the Library) is a component unit of the City of Manhattan, Kansas and is governed by an appointed board. The Library is primarily funded through a tax levy, fines and fees, and charitable donations. Revenue is used to operate and staff the Library. The accompanying general purpose 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.

The financial reporting entity of the Library is comprised of itself as the primary government and any component units. Component units of the governmental entity are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the combined financial statements to be misleading or incomplete. Based on the application of the criteria above, the Manhattan Library Foundation, Inc. (the Foundation) is considered a component unit and is shown in a separate column as a discretely presented component unit.

Discretely Presented Component Units - The component units section of these financial statements includes the financial data of the discretely presented component unit. This component unit is reported separately to emphasize that it is legally separate from the Library.

Library Foundation - The Foundation supports the continued growth and improvement of the Library by accepting donations and investing them to support the Library. Separate financial statements are available from the Board President upon request.

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) and fund financial statements (reporting the Library's major funds).

Government-Wide Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. For the most part, the effect of interfund activity has been removed from the statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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; restricted net assets; and unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to library patrons who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues and are reported instead as general revenue.

MANHATTAN PUBLIC LIBRARY
Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

Note 1: Summary of Significant Accounting Policies (Continued)

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

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 available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

The Library reports the following major governmental funds:

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

The Employee Benefits Fund is a special revenue fund used to account for payroll and employee benefits of the Library.

The Endowment Fund is a special revenue fund used to account for certain contributions and gifts made to the Library.

The Library also has the following non-major funds:

The Grants, Fines, Fees and Interest Fund is a special revenue fund used to account for and report the grants, fines, fees and interest earned by the Library.

Budgetary Information

Kansas statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Prior to July 1, the Librarian submits to the Executive Committee a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Library presents the budget to the City of Manhattan for approval. Once approved by the City, it is included in the City budget that is legally enacted prior to August 25.
3. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
4. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles except that encumbrances are shown as expenditures. Budgetary comparisons for the General and Special Revenue Funds are presented as required by the State of Kansas; that is, including encumbrances as expenditures.

Bank Deposits and Investments

The Library has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments of three months or less when acquired. Investments are stated at fair value.

MANHATTAN PUBLIC LIBRARY
Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

Note 1: Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at cost. 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	40 years
Furniture and equipment	5 - 10 years

Compensated Absences

It is the Library's policy to permit employees to accumulate earned but unused sick and vacation benefits. There is no liability for unpaid accumulated sick leave since the Library does not have a policy to pay any amounts when employees separate from service with the Library. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund - General Fund only for employee terminations as of year-end.

Fund Balances

The Library elected to implement GASB No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, in calendar year 2011. In the fund financial statements, governmental funds report the following classifications of fund balance:

- Restricted - includes amounts restricted by external sources (creditors, grantors, contributors, laws of other governments, etc.) or by constitutional provision or enabling legislation.
- Assigned - includes amounts that the Library intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. According to the Library's policy, amounts may be assigned by the Director under the authorization of the Library's Board of Directors.
- Unassigned - includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Library considers restricted funds to have been sent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Library considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Library's board of directors has provided otherwise in its commitment or assignment actions.

Net Assets

Net assets restricted for purchase of materials are restricted for library collection materials, programming and equipment as allowed by the individual grant documents or contributors. Net assets restricted for employee benefits are to pay wages and benefits.

The Library's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

MANHATTAN PUBLIC LIBRARY
 Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2011

Note 2: Deposits and Investments

As of December 31, 2011, the Library had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less than 1</u>	<u>1 - 2</u>
Certificates of deposit	\$ 415,481	\$ 415,481	\$ -

K.S.A. 9-1401 establishes the depositories which may be used by the Library. The statute requires banks eligible to hold the Library's funds have a main or branch bank in the county in which the Library is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The Library has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Library's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Library has no investment policy that would further limit its investment choices. The Manhattan Library Foundation, a component unit, is not limited by the investment policies of the Library and has their own investment policy.

Concentration of credit risk - State statutes place no limit on the amount the Library may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk - deposits - Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. State statutes require the Library's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2011.

Custodial credit risk - investments - For an investment, this is the risk that, in the event of the failure of the issuer or 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. State statutes require investments to be adequately secured.

The Foundation component unit cash and cash equivalents of \$4,439 are stated at cost which approximates fair value. The Foundation's component unit investments of \$2,543,758 are stated at fair value and consist of the following at December 31, 2011:

Money market funds	\$ 93,301
Equities	1,889,735
Bonds	42,925
Mutual funds	517,797
Total	<u><u>\$ 2,543,758</u></u>

MANHATTAN PUBLIC LIBRARY
 Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2011

Note 3: Capital Assets

Capital asset activity for the year ended December 31, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated				
Construction in progress	\$ 6,798	\$ -	\$ (6,798)	\$ -
Works of art	32,400	-	-	32,400
	<u>\$ 39,198</u>	<u>\$ -</u>	<u>\$ (6,798)</u>	<u>\$ 32,400</u>
Capital assets being depreciated				
Furniture and equipment	\$ 1,416,902	\$ 53,326	\$ (4,598)	\$ 1,465,630
Leasehold improvements	412,201	32,977	-	445,178
Less: Accumulated depreciation				
Furniture and equipment	<u>(1,274,294)</u>	<u>(91,147)</u>	<u>1,726</u>	<u>(1,363,715)</u>
Total capital assets being depreciated - Net	<u>\$ 554,809</u>	<u>\$ (4,844)</u>	<u>\$ (2,872)</u>	<u>\$ 547,093</u>
Governmental activities capital assets - Net	<u>\$ 594,007</u>	<u>\$ (4,844)</u>	<u>\$ (9,670)</u>	<u>\$ 579,493</u>

Note 4: Defined Benefit Pension Plan

The Library participates in the Kansas Public Employees Retirement System (KPERs), a cost-sharing, multiple-employer defined benefit pension plan as provided by KSA 74-4901, et seq. KPERs provides retirement benefits, life insurance, disability income benefits and death benefits. Kansas law establishes and amends benefit provisions. KPERs issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERs (611 S. Kansas, Suite 100, Topeka, KS 66603), or by calling 1-888-275-5737.

KSA 74-4919 establishes the KPERs member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Service Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERs is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERs employers. The employer rate established by statute for January 1, 2011 to December 31, 2011 is 7.74%. The Library contributions to KPERs for the years ending December 31, 2011, 2010 and 2009 were \$92,109, \$85,556 and \$68,998, respectively, equal to statutory required contributions for each year.

Note 5: Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties.

Note 6: Budgetary Comparison

Under GASB No. 34, budgetary comparison information is required to be presented for the general fund and each major special revenue fund with a legally adopted budget. The Library is not legally required to adopt a budget for the Endowment Fund. Therefore, budget comparison information is not included in the Library's financial statements.

MANHATTAN PUBLIC LIBRARY
Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

Note 7: FCIP Reimbursement to City of Manhattan

The Library entered into a Memorandum of Understanding (MOU) with the City of Manhattan for the Facility Conservation Improvement Program (FCIP) during 2011. This project provides for various improvements to the Library which are intended to result in a savings in annual energy costs. The MOU states that the City of Manhattan will pay all of the costs associated with the project and the Library will reimburse the City a total of \$254,710 over a ten year period. The payments will be made annually in the amount of \$25,471. The total balance is reflected on the Government Wide statements as a liability and expense and the liability will be reduced each year by the payment made. Only the payment each year will be reflected on the governmental fund financial statements.

SUPPLEMENTAL INFORMATION

MANHATTAN PUBLIC LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL AND EMPLOYEE BENEFIT FUNDS
 For the Year Ended December 31, 2011

SCHEDULE 1

	GENERAL FUND			SPECIAL REVENUE FUND EMPLOYEE BENEFIT		
	Budget	Actual	Favorable (Unfavorable) Variance	Budget	Actual	Favorable (Unfavorable) Variance
REVENUE						
Appropriation from the City of Manhattan, Kansas	\$ 1,999,494	\$ 1,996,150	\$ (3,344)	\$ 440,000	\$ 440,000	\$ -
Reimbursements and miscellaneous revenue	-	4,769	4,769	-	-	-
Total Revenues	\$ 1,999,494	\$ 2,000,919	\$ 1,425	\$ 440,000	\$ 440,000	\$ -
EXPENDITURES						
Salaries and employee benefits	\$ 1,406,344	\$ 1,379,371	\$ 26,973	\$ -	\$ -	\$ -
Health benefits	-	-	-	220,000	214,773	5,227
Technology	104,650	104,650	-	-	-	-
Insurance	25,500	25,276	224	-	-	-
Utilities	92,800	87,920	4,880	-	-	-
Telephone	4,000	4,000	-	-	-	-
Building and grounds	67,000	67,000	-	-	-	-
Staff development	6,000	6,000	-	-	-	-
Audit	5,000	5,974	(974)	-	-	-
Books and binding	214,500	212,060	2,440	-	-	-
Periodicals	29,000	29,000	-	-	-	-
Supplies	17,500	15,060	2,440	-	-	-
Postage and freight	24,000	24,000	-	-	-	-
Printing	3,200	3,200	-	-	-	-
Reimbursements	-	3,532	(3,532)	-	-	-
Social Security	-	-	-	107,000	100,867	6,133
KPERS	-	-	-	102,800	92,109	10,691
Workmen's Compensation	-	-	-	8,700	7,031	1,669
Unemployment taxes	-	-	-	1,500	1,288	212
Total Expenditures	\$ 1,999,494	\$ 1,967,043	\$ 32,451	\$ 440,000	\$ 416,068	\$ 23,932
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ 33,876	\$ 33,876	\$ -	\$ 23,932	\$ 23,932
FUND BALANCE - BEGINNING OF YEAR	-	-	-	-	89,707	(89,707)
FUND BALANCE - END OF YEAR	\$ -	\$ 33,876	\$ (33,876)	\$ -	\$ 113,639	\$ (113,639)

The accompanying notes are an integral part of these financial statements.
 See Independent Auditors' Report.

Supplemental Information

MANHATTAN PUBLIC LIBRARY
 Manhattan, Kansas
BUDGETARY COMPARISON SCHEDULE - BUDGET-TO-GAAP RECONCILIATION
 For the Year Ended December 31, 2011

Note A - Explanation of Differences between Total Revenues and Expenditures - Budgetary Basis and Total Revenues and Expenditures - GAAP Basis

	General Fund	Employee Benefit Fund
Total Revenues - Budgetary Basis as reported on the Budgetary Comparison Schedule	\$ 2,000,919	\$ 440,000
<p>Revenues are recognized in the year cash is received for budgetary purposes, but in the year measurable and available for financial reporting (GAAP) purposes. Revenues are considered available for GAAP purposes if collected within 60 days after year-end</p>		
Revenues derived from accounts receivable at December 31, 2011	-	-
Revenues derived from donated art work during the current year	-	-
Revenues derived from donated children's items during the current year	-	-
Revenues derived from donated equipment during the current year	-	-
	-	-
Total Revenues - GAAP Basis as reported on the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balances	\$ 2,000,919	\$ 440,000
Total Expenditures - Budgetary Basis as reported on the Budgetary Comparison Schedule	\$ 1,967,043	\$ 416,068
<p>Expenditures include disbursements, accounts payable, and encumbrances for budgetary purposes. For financial reporting (GAAP) purposes expenditures are recorded when the related fund liability is incurred, regardless of the need for present or future cash outlay</p>		
Expenditures derived from donated art work during the current year	-	-
Expenditures derived from donated children's items during the current year	-	-
Expenditures derived from donated equipment during the current year	-	-

(Continued)

Supplemental Information

MANHATTAN PUBLIC LIBRARY
 Manhattan, Kansas
BUDGETARY COMPARISON SCHEDULE - BUDGET-TO-GAAP RECONCILIATION (CONTINUED)
 For the Year Ended December 31, 2011

Note A - Explanation of Differences between Total Revenues and Expenditures - Budgetary Basis and Total Revenues and Expenditures - GAAP Basis (Continued)

	General Fund	Employee Benefit Fund
Encumbrances for supplies and equipment ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting (GAAP) purposes		
Encumbrances at December 31, 2010	-	-
Encumbrances at December 31, 2011	-	-
Total Expenditures - GAAP Basis as reported on the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balances	\$ 1,967,043	\$ 416,068

Supplemental Information