

NORTH CENTRAL KANSAS LIBRARIES SYSTEM

Manhattan, Kansas

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

For the Year Ended December 31, 2011

NORTH CENTRAL KANSAS LIBRARIES SYSTEM

Manhattan, Kansas
As of December 31, 2011

EXECUTIVE COMMITTEE

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Susan Moyer
Mary White
Anita Boese
Wendy Mitchell
Janet Duncan
Gail Daugherty
Gwen Owens-Wilson
Susan Adamchak
Janet Keller
Susan Davis
Marilyn Hund
Eric Benson
Jamie Kelley
Robin Ottoson

OFFICERS

President - Dr. Jack Havenhill
Vice-President - Susan Moyer
Secretary - Treasurer - Mary White

Linda Knupp
Director

NORTH CENTRAL KANSAS LIBRARIES SYSTEM

Manhattan, Kansas

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March 27, 2012

Board Members
North Central Kansas Libraries System
Manhattan, Kansas

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Central Kansas Libraries System (the Library System), as of and for the year ended December 31, 2011, which collectively comprise the Library System's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Library System'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, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the Kansas Municipal Audit Guide. 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 financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Library System, 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 15, 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

Board Members
North Central Kansas Libraries System
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 North Central Kansas Libraries System (the Library System) 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 Library System'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 Library System'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
North Central Kansas Libraries System
(Continued)

This report is intended solely for the information and use of management and the Board of Directors, 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

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
 Manhattan, Kansas
MANAGEMENT DISCUSSION AND ANALYSIS
 For the Year Ended 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 System:

The Statement of Net Assets and Statement of Activities are the *government-wide financial statements*. They provide information about the activities of the Library System as a whole and present a longer-term view of the Library System’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 System’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 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	\$ 1,077	\$ 944
Capital assets	29	40
Total Assets	<u>\$ 1,106</u>	<u>\$ 984</u>
Liabilities		
Current liabilities	\$ 13	\$ 5
Deferred revenue	755	760
Total Liabilities	<u>\$ 768</u>	<u>\$ 765</u>
Net Assets		
Unrestricted	\$ 141	\$ 179
Restricted	168	-
Invested in capital assets	29	40
Total Net Assets	<u>\$ 338</u>	<u>\$ 219</u>
Revenue		
Property taxes	\$ 802	\$ 694
Other	219	308
Total Revenue	<u>\$ 1,021</u>	<u>\$ 1,002</u>
Expenses	<u>902</u>	<u>1,051</u>
Change in Net Assets	<u>\$ 119</u>	<u>\$ (49)</u>

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
Manhattan, Kansas
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
For the Year Ended December 31, 2011

Tax revenues from eight participating counties in the North Central Kansas Libraries System (the Library System) provide nearly 80% of the organization's income. Remaining revenues come from fees, grants, interest, and gifts.

In 2011, tax revenue exceeded expectations by more than 15%. Interest income and miscellaneous income also exceeded expectations overall.

The retirement of the library director and business manager, both long term employees resulted in unexpended revenues for salaries and employee benefits. Anticipated reduction of OCLC costs with changes in cataloging procedures was not realized. The Library System increased the amount of annual grants to 18 neighborhood libraries from \$800 to \$1000.

Overall total expenses were considerably lower than budgeted for. Unexpended funds have traditionally been retained for contingency. Unexpended funds will also help fully fund services in 2012, supplementing anticipated decreases of 5% in state-aid and the Talking Books income, as well as expected decreases in consortia purchasing savings and in-kind support from the state library.

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
 Manhattan, Kansas
STATEMENT OF NET ASSETS
 December 31, 2011

ASSETS

Assets

Cash and cash equivalents	\$ 346,711
Taxes receivable	730,365
Capital assets - Net	28,698
TOTAL ASSETS	<u>\$ 1,105,774</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 13,272
Compensated absences	24,298
Deferred revenue	730,365
Total Liabilities	<u>\$ 767,935</u>

Net Assets

Invested in capital assets	\$ 28,698
Restricted by	
Grantor	72,798
Tax levy	95,130
Unrestricted	141,213
Total Net Assets	<u>\$ 337,839</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 1,105,774

Financial Statements

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
 Manhattan, Kansas
STATEMENT OF ACTIVITIES
 For the Year Ended December 31, 2011

Expenditure/Expenses	
Library Operations	
Personnel services	\$ 544,081
Commodities	176,655
Contractual services	170,107
Depreciation	11,206
Total Program Expenses	<u>\$ 902,049</u>
Program Revenues	
Charges for services	<u>\$ 3,639</u>
Net Program Expenses	<u>\$ 898,410</u>
General Revenues	
Property taxes	\$ 802,468
Intergovernmental	209,856
Investment earnings	4,232
Gifts and bequests	1,060
Total General Revenues	<u>\$ 1,017,616</u>
Change in Net Assets	\$ 119,206
NET ASSETS - BEGINNING OF THE YEAR	<u>218,633</u>
NET ASSETS - END OF THE YEAR	<u><u>\$ 337,839</u></u>

Financial Statements

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
 Manhattan, Kansas
BALANCE SHEET
 December 31, 2011

	<u>General Fund</u>	<u>Employee Benefit Fund</u>	<u>State Aid Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 178,570	\$ 95,130	\$ 213	\$ 72,798	\$ 346,711
LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts payable	\$ 13,272	\$ -	\$ -	\$ -	\$ 13,272
Fund Balance					
Restricted	\$ -	\$ 95,130	\$ -	\$ 72,798	\$ 167,928
Assigned	-	-	213	-	213
Unassigned	165,298	-	-	-	165,298
Total Fund Balance	<u>\$ 165,298</u>	<u>\$ 95,130</u>	<u>\$ 213</u>	<u>\$ 72,798</u>	<u>\$ 333,439</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 178,570</u>	<u>\$ 95,130</u>	<u>\$ 213</u>	<u>\$ 72,798</u>	<u>\$ 346,711</u>

Total Fund Balance - Modified Accrual Basis

\$ 333,439

Amounts reported in the statement of net assets are different because:

Taxes receivable are included as an asset

730,365

Capital assets are not financial resources, and are not reported in the funds

28,698

Compensated absences are included as a liability

(24,298)

Deferred revenues are included as a liability

(730,365)

Net Assets of General Fund - Full Accrual Basis

\$ 337,839

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

Financial Statements

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
Manhattan, Kansas

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

	General Fund	Employee Benefit Fund	State Aid Fund	Other Governmental Funds	Total
Revenue					
Property taxes	\$ 634,443	\$ 168,025	\$ -	\$ -	\$ 802,468
Fines and fees	2,141	-	-	-	2,141
State aid and grants	-	-	83,241	38,288	121,529
Interest	4,232	-	-	-	4,232
Contracting libraries	11,522	-	-	68,628	80,150
Gifts	-	-	-	1,060	1,060
Reimbursements	8,177	-	-	-	8,177
Other miscellaneous	1,498	-	-	-	1,498
Total Revenue	\$ 662,013	\$ 168,025	\$ 83,241	\$ 107,976	\$ 1,021,255
Expenditures					
Salaries and employee benefits	\$ 393,465	\$ 128,393	\$ -	\$ 24,232	\$ 546,090
Telecommunications	2,666	-	-	-	2,666
Travel/Staff development	28,937	-	-	-	28,937
Professional/Contractual services	38,343	-	21,000	-	59,343
Supplies	8,439	-	8,196	1,458	18,093
Postage	-	-	10,596	-	10,596
Books and materials	(712)	-	43,479	-	42,767
Grants to libraries	107,320	-	-	68,981	176,301
Capital outlay	8,059	-	-	-	8,059
Total Expenditures	\$ 586,517	\$ 128,393	\$ 83,271	\$ 94,671	\$ 892,852
Excess of Revenue Over Expenditures	\$ 75,496	\$ 39,632	\$ (30)	\$ 13,305	\$ 128,403
FUND BALANCE - BEGINNING OF THE YEAR	89,802	55,498	243	59,493	205,036
FUND BALANCE - END OF THE YEAR	\$ 165,298	\$ 95,130	\$ 213	\$ 72,798	\$ 333,439

(Continued)

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

Financial Statements

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
 Manhattan, Kansas
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE (CONTINUED)
 For the Year Ended December 31, 2011

Net Change in Fund Balances - Modified Accrual Basis	Total
Amounts reported in the statement of activities are different because:	\$ 128,403
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	-
Depreciation	(11,206)
Decrease in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	2,009
Change in Net Assets of General Fund - Full Accrual Basis	\$ 119,206

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

Financial Statements

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

Note 1: Summary of Significant Accounting Policies

Reporting Entity

The North Central Kansas Libraries System (the Library System) is a municipal entity established by the State of Kansas and governed by an appointed board. The Library System is primarily funded through tax levies, grants, and fees. Revenue is used to assist participating libraries in staffing and providing programs and services. The accompanying general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity.

The financial reporting entity of the Library System 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, there are no component units.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Library System's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library System'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 liabilities and obligations. The Library System'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.

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.

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
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

The Library System reports the following major governmental funds:

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

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

The State Aid Fund is a special revenue fund used to account for state support and items to support operation of the Library System.

The other aggregate non-major funds of the Library System account for various grants and other resources.

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. Prior to August 25, the budget is legally enacted.
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.

Cash and Cash Equivalents

The Library System has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments of three months or less when acquired.

Capital Assets

Capital assets are defined by the Library System 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:

Furniture and equipment	5 -10 years
Vehicles	5 years
Software	3 years

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2011

Note 1: Summary of Significant Accounting Policies (Continued)

Compensated Absences

It is the Library System'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 System does not have a policy to pay any amounts when employees separate from service with the Library System. 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.

Taxes Receivable

Taxes receivable consist of amounts levied for 2011 as part of the 2011 budget. As the amounts cannot be used until the year for which they are levied, the receivable is offset by a corresponding deferred revenue. This deferred revenue will be recognized in 2011 when the taxes are received.

Fund Balances - Governmental Funds

The Library System elected to implement GASB 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 System intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. According to the Library System's policy, amounts may be assigned by the Director under the authorization of the Library System'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 System considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Library System considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Library System's board of directors has provided otherwise in its commitment or assignment actions.

Net Assets

Net assets restricted by grantor are restricted for use in accordance with grant agreements. Net assets restricted by tax levy are restricted to payment of wages and benefits.

The Library System'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.

Note 2: Deposits and Investments

K.S.A 9-1401 establishes the depositories which may be used by the Library System. The statute requires banks eligible to hold the Library System's funds have a main or branch bank in the county in which the Library System 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 System has no other policies that would further limit interest rate risk.

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
 Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2011

Note 2: Deposits and Investments (Continued)

K.S.A. 12-1675 limits the Library System'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 System has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the Library System 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 System's deposits may not be returned to it. State statutes require the Library System'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%.

At December 31, 2011, the Library System's carrying amount of deposits was \$346,711 and the bank balance was \$358,877. The bank balance was held by one bank resulting in a concentration of credit risk. The FDIC insurance insured up to \$250,000; however, the remaining balance of \$108,877 was uninsured at 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 being depreciated				
Furniture and equipment	\$ 146,193	\$ -	\$ -	\$ 146,193
Vehicles	60,900	-	-	60,900
Software	1,780	-	-	1,780
Total	<u>\$ 208,873</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 208,873</u>
Less: Accumulated depreciation				
Furniture and equipment	\$ (130,847)	\$ (3,374)	\$ -	\$ (134,221)
Vehicles	(37,233)	(7,239)	-	(44,472)
Software	(889)	(593)	-	(1,482)
Total	<u>\$ (168,969)</u>	<u>\$ (11,206)</u>	<u>\$ -</u>	<u>\$ (180,175)</u>
Governmental Activities Capital Assets - Net	<u>\$ 39,904</u>	<u>\$ (11,206)</u>	<u>\$ -</u>	<u>\$ 28,698</u>

Note 4: Defined Benefit Pension Plan

The Library System 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.

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
 Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2011

Note 4: Defined Benefit Pension Plan (Continued)

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 System contributions to KPERS for the years ending December 31, 2011, 2010, and 2009 were \$32,316, \$30,643, and \$27,397, respectively, equal to statutory required contributions for each year.

Note 5: Risk Management

The Library System 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: Long-Term Obligation Activity

Changes in long-term obligations for the year ended December 31, 2011 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Compensated absences	\$ 26,306	\$ -	\$ (2,008)	\$ 24,298

Compensated absences are paid from the General Fund.

Note 7: Interfund Transfers to/from Other Funds

During the course of normal operations, the Library System has transactions between funds that consist principally of interest income earned in one fund and transferred to other funds. Interfund transactions are classified as "other financing sources (uses)" in the governmental funds; as "interfund transfers in" by the recipient fund, and "interfund transfers out" by the disbursing fund.

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
 Manhattan, Kansas
BUDGETARY COMPARISON SCHEDULE - GENERAL AND EMPLOYEE BENEFITS FUNDS
 For the Year Ended December 31, 2011

	General Fund			Employee Benefits		
	Budget	Actual	Favorable (Unfavorable) Variance	Budget	Actual	Favorable (Unfavorable) Variance
REVENUE						
Taxes	\$ 641,073	\$ 634,443	\$ (6,630)	\$ 168,790	\$ 168,025	\$ (765)
Interest income	600	4,232	3,632	-	-	-
Contracting libraries	-	11,522	-	-	-	-
Service contracts	25,512	2,141	(23,371)	-	-	-
Reimbursements	3,200	9,675	6,475	-	-	-
Total Revenue	\$ 670,385	\$ 662,013	\$ (19,894)	\$ 168,790	\$ 168,025	\$ (765)
EXPENDITURES						
Salaries	\$ 434,703	\$ 393,465	\$ 41,238	\$ -	\$ -	\$ -
Books and materials	-	(712)	712	-	-	-
Continuing education grant	4,500	2,469	2,031	-	-	-
Service grants	112,200	102,907	9,293	-	-	-
Technology grant	20,000	1,944	18,056	-	-	-
Telecommunications	4,440	2,666	1,774	-	-	-
Supplies	10,600	8,439	2,161	-	-	-
Travel/Staff development	33,800	28,937	4,863	-	-	-
Postage and freight	28,000	-	28,000	-	-	-
Professional/Contractual	28,600	36,958	(8,358)	-	-	-
Equipment and maintenance	9,500	9,444	56	-	-	-
Employee benefits	-	-	-	175,000	128,393	46,607
Capital reserve	5,000	-	5,000	-	-	-
Total Expenditures	\$ 691,343	\$ 586,517	\$ 104,826	\$ 175,000	\$ 128,393	\$ 46,607
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (20,958)	\$ 75,496	\$ 84,932	\$ (6,210)	\$ 39,632	\$ 45,842
FUND BALANCE - BEGINNING OF YEAR	20,958	89,802	6,210	6,210	55,498	55,498
FUND BALANCE - END OF YEAR	\$ -	\$ 165,298	\$ -	\$ -	\$ 95,130	\$ 95,130

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

Supplemental Information

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
 Manhattan, Kansas
BUDGETARY COMPARISON SCHEDULE - BUDGET-TO-GAAP RECONCILIATION
 For the Year Ended December 31, 2011

Supplemental Information

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

	<u>General Fund</u>	<u>Employee Benefit Fund</u>
Total Revenues - Budgetary Basis as reported on the Budgetary Comparison Schedule	\$ 662,013	\$ 168,025
<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 sixty 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	<u>\$ 662,013</u>	<u>\$ 168,025</u>
Total Expenditures - Budgetary Basis as reported on the Budgetary Comparison Schedule	\$ 586,517	\$ 128,393
<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)

NORTH CENTRAL KANSAS LIBRARIES SYSTEM

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)

	<u>General Fund</u>	<u>Employee Benefit Fund</u>
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	<u>\$ 586,517</u>	<u>\$ 128,393</u>

Supplemental Information