

MANHATTAN PUBLIC LIBRARY

Manhattan, Kansas

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

For the Year Ended December 31, 2012

MANHATTAN PUBLIC LIBRARY

Manhattan, Kansas

As of December 31, 2012

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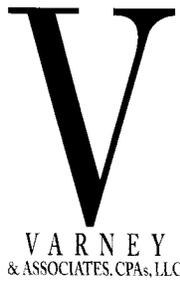
MANHATTAN PUBLIC LIBRARY

Manhattan, Kansas

TABLE OF CONTENTS

As of December 31, 2012

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL	3
MANAGEMENT DISCUSSION AND ANALYSIS	4 - 5
GENERAL PURPOSE FINANCIAL STATEMENTS	
Statement of Net Position	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



April 15, 2013

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

INDEPENDENT AUDITOR'S 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 (the Library), as of and for the year ended December 31, 2012, which collectively comprise the Library's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

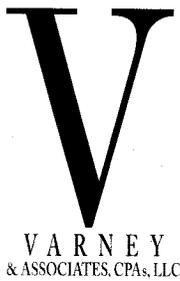
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Manhattan Public Library, as of December 31, 2012, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

April 15, 2013
Manhattan Public Library
(continued)

Other-Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 and 5 and 18 through 20 be presented to supplement the basic financial statements. Such information, although not a 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.

Varny & Associates
Certified Public Accountants
Manhattan, Kansas



April 15, 2013

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

**Independent Auditor's 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, 2012, and have issued our report thereon dated April 15, 2013. 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*.

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

MANHATTAN PUBLIC LIBRARY
 Manhattan, Kansas
MANAGEMENT DISCUSSION AND ANALYSIS
 December 31, 2012

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 Position 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>2012</u>	<u>2011</u>
Assets		
Current assets	\$ 3,049	\$ 2,962
Investments	420	415
Capital assets	770	579
Total Assets	<u>\$ 4,239</u>	<u>\$ 3,956</u>
Liabilities		
Current liabilities	\$ 3,299	\$ 2,586
Noncurrent liabilities	(298)	322
Total Liabilities	<u>\$ 3,001</u>	<u>\$ 2,908</u>
Net Position		
Unrestricted	\$ 373	\$ 452
Restricted	95	17
Investment in capital assets	770	579
Total Net Position	<u>\$ 1,238</u>	<u>\$ 1,048</u>
Revenue		
Property taxes	\$ 2,450	\$ 2,436
Other	276	254
Total Revenue	<u>\$ 2,726</u>	<u>\$ 2,690</u>
Expenses	<u>2,791</u>	<u>2,923</u>
CHANGE IN NET POSITION	<u>\$ (65)</u>	<u>\$ (233)</u>

MANHATTAN PUBLIC LIBRARY
Manhattan, Kansas
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
December 31, 2012

The Library has three sources of revenue. Ninety-one percent of revenue comes from local property tax. Grants, fines and fees account for 5% of the revenue and endowment income provides the remaining 4%.

The 2012 budget was impacted by a 5% decrease in state aid, rising costs for health insurance, increased demand for high-speed Internet access and a new service to provide downloadable eBooks to library customers.

Growth in property valuation helps keep the library budget at an adequate level to provide quality services to meet public demand. Income from grants, fees, fines and interest was higher than anticipated due to the North Central Kansas Libraries System (NCKLS) reimbursement for a space allocation agreement, income from fines and fees, and carry-over from 2011 for capital/special projects. Income in the endowment account was lower than budgeted, due to lower interest rate earnings, and fewer gifts to the endowment. A successful capital campaign in 2012 directed gifts to the Manhattan Library Foundation for a building expansion project.

The 2013 budget continues support for modest growth. The demand for library services continues to grow, as seen in a 5.75% increase in the circulation of materials in 2012.

MANHATTAN PUBLIC LIBRARY
 Manhattan, Kansas
STATEMENT OF NET POSITION
 December 31, 2012

ASSETS

	Primary Government	Component Unit
	Governmental Activities	Manhattan Library Foundation
Assets		
Cash and cash equivalents	\$ 431,518	\$ 614,013
Taxes receivable	2,617,928	-
Investments	419,757	2,821,038
Contributions receivable	-	483,099
Capital assets - Net	770,283	-
TOTAL ASSETS	\$ 4,239,486	\$ 3,918,150

LIABILITIES AND NET POSITION

Liabilities		
Accounts payable	\$ 85,619	\$ -
Compensated absences	68,577	-
Deferred revenue	2,617,928	-
FCIP - Reimbursement to City of Manhattan		
Amount due within one year	25,471	-
Amount due in more than one year	203,768	-
Total FCIP - Reimbursement to City of Manhattan	\$ 229,239	\$ -
Total Liabilities	\$ 3,001,363	\$ -
Net Position		
Investment in capital assets	\$ 770,283	\$ -
Unrestricted	372,407	2,999,136
Restricted	95,433	919,014
Total Net Position	\$ 1,238,123	\$ 3,918,150
TOTAL LIABILITIES AND NET POSITION	\$ 4,239,486	\$ 3,918,150

MANHATTAN PUBLIC LIBRARY
 Manhattan, Kansas
STATEMENT OF ACTIVITIES
 For the Year Ended December 31, 2012

	Primary Government	Component Unit
	Governmental Activities	Manhattan Library Foundation
Expenditure/Expenses		
Library operations		
Personnel services	\$ 1,855,467	\$ -
Commodities	355,671	17
Contractual services	465,787	3,869
Gifts to Manhattan Public Library	-	60,160
Reimbursements	1,802	-
Contributions	-	47,096
Depreciation	112,421	-
Total Program Expenses	\$ 2,791,148	\$ 111,142
Program Revenues		
Charges for services	\$ 84,010	\$ -
Net Program Expenses	\$ 2,707,138	\$ 111,142
General Revenues		
Property taxes	\$ 2,449,541	\$ -
Intergovernmental	56,118	-
Investment earnings	8,413	332,490
Reimbursements	52,681	-
Gifts and bequests	75,261	1,148,705
Total General Revenues	\$ 2,642,014	\$ 1,481,195
Change in Net Position	\$ (65,124)	\$ 1,370,053
NET POSITION - BEGINNING OF THE YEAR	1,303,247	2,548,097
NET POSITION - END OF THE YEAR	\$ 1,238,123	\$ 3,918,150

Financial Statements

MANHATTAN PUBLIC LIBRARY
 Manhattan, Kansas
BALANCE SHEET
 December 31, 2012

	General Fund	Employee Benefit Fund	Endowment Fund	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 99,948	\$ 119,880	\$ 114,412	\$ 97,278	\$ 431,518
Investments	-	-	246,788	172,969	419,757
TOTAL ASSETS	<u>\$ 99,948</u>	<u>\$ 119,880</u>	<u>\$ 361,200</u>	<u>\$ 270,247</u>	<u>\$ 851,275</u>
LIABILITIES AND FUND BALANCE					
Liabilities	\$ 35,950	\$ 35,809	\$ 11,905	\$ 1,955	\$ 85,619
Accounts payable					
Fund Balance					
Restricted for					
purchase of materials	\$ -	\$ -	\$ 11,362	\$ -	\$ 11,362
employee wages and benefits	-	84,071	-	-	84,071
Assigned	-	-	337,933	268,292	606,225
Unassigned	63,998	-	-	-	63,998
Total Fund Balance	<u>\$ 63,998</u>	<u>\$ 84,071</u>	<u>\$ 349,295</u>	<u>\$ 268,292</u>	<u>\$ 765,656</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 99,948</u>	<u>\$ 119,880</u>	<u>\$ 361,200</u>	<u>\$ 270,247</u>	<u>\$ 851,275</u>
Total Fund Balance - Modified Accrual Basis					\$ 765,656
Amounts reported in the statement of net position are different because:					
Taxes receivable are included as an asset					2,617,928
Capital assets are not financial resources, and are not reported in the funds					770,283
Deferred revenues are included as a liability					(2,617,928)
Compensated absences are included as a liability					(68,577)
FCIP liability to City of Manhattan is included as a liability					(229,239)
Net Position of Primary Government - Full Accrual Basis					<u>\$ 1,238,123</u>

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

Financial Statements

MANHATTAN PUBLIC LIBRARY

Manhattan, Kansas

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE

For the Year Ended December 31, 2012

	General Fund	Employee Benefit Fund	Endowment Fund	Other Governmental Funds	Total
Revenue					
Property taxes	\$ 2,022,061	\$ 427,480	\$ -	\$ -	\$ 2,449,541
Charges for services	-	-	-	19,347	19,347
Fines and fees	-	-	-	64,126	64,126
State aid and grants	-	-	6,875	27,266	34,141
Interest	-	-	3,010	5,403	8,413
Gifts and bequests	-	-	66,708	89	66,797
Reimbursements	-	-	34,862	46,618	81,480
Other miscellaneous	537	-	-	1,589	2,126
Total Revenue	\$ 2,022,598	\$ 427,480	\$ 111,455	\$ 164,438	\$ 2,725,971
Expenditures					
Salaries and employee benefits	\$ 1,397,795	\$ 456,329	\$ -	\$ -	\$ 1,854,124
Building and grounds	148,694	-	-	22,422	171,116
Technology	110,751	-	-	35,555	146,306
Materials	258,588	-	84,197	36,517	379,302
Services	-	-	36,513	12,150	48,663
Administrative	76,648	-	-	8,525	85,173
Gift/Special projects	-	-	-	40,161	40,161
Reimbursements	-	-	26,458	-	26,458
Total Expenditures	\$ 1,992,476	\$ 456,329	\$ 147,168	\$ 155,330	\$ 2,751,303

(Continued)

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

Financial Statements

MANHATTAN PUBLIC LIBRARY
 Manhattan, Kansas
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE (CONTINUED)
 For the Year Ended December 31, 2012

	<u>General Fund</u>	<u>Employee Benefit Fund</u>	<u>Endowment Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Excess (Deficiency) of Revenue Over Expenditures	\$ 30,122	\$ (28,849)	\$ (35,713)	\$ 9,108	\$ (25,332)
Other Financing Sources (Uses)					
Interfund transfers in	\$ -	\$ -	\$ -	\$ 63,998	\$ 63,998
Interfund transfers out	(63,998)	-	-	-	(63,998)
Total Other Financing Sources (Uses)	\$ (63,998)	\$ -	\$ -	\$ 63,998	\$ -
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	\$ (33,876)	\$ (28,849)	\$ (35,713)	\$ 73,106	\$ (25,332)
FUND BALANCE - BEGINNING OF THE YEAR	33,876	112,920	385,008	259,184	790,988
FUND BALANCE - END OF THE YEAR	\$ -	\$ 84,071	\$ 349,295	\$ 332,290	\$ 765,656
Net Change in Fund Balances - Modified Accrual Basis					\$ (25,332)

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	48,501
Depreciation	(112,421)
Increase in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	(1,343)

Payment on FCIP liability is reported as expenditure in the statement of revenue, expenditures and changes in fund balance; in the statement of activities, it is recorded as a decrease in liability

	25,471
Change in Net Position of Primary Government - Full Accrual Basis	\$ (65,124)

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

Financial Statements

MANHATTAN PUBLIC LIBRARY
Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

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 position 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 position 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, 2012

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 Board of Directors 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 guidance. 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, 2012

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 spent 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, 2012

Note 2: Deposits and Investments

As of December 31, 2012, 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	\$ 419,757	\$ 419,757	\$ -

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, 2012.

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 \$614,013 are stated at cost which approximates fair value. The Foundation's component unit investments of \$2,821,038 are stated at fair

Money market funds	\$ 92,816
Equities	2,165,157
Bonds	41,541
Mutual funds	521,524
Total	<u><u>\$ 2,821,038</u></u>

MANHATTAN PUBLIC LIBRARY
 Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2012

Note 3: Capital Assets

Capital asset activity for the year ended December 31, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated				
Works of art	\$ 32,400	\$ -	\$ -	\$ 32,400
	<u>\$ 32,400</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,400</u>
Capital assets being depreciated				
Furniture and equipment	\$ 1,465,630	\$ 56,327	\$ (17,300)	\$ 1,504,657
Leasehold improvements	699,888	-	-	699,888
Less: Accumulated depreciation				
Furniture and equipment	(1,363,715)	(112,421)	9,474	(1,466,662)
Total capital assets being depreciated - Net	<u>\$ 801,803</u>	<u>\$ (56,094)</u>	<u>\$ (7,826)</u>	<u>\$ 737,883</u>
Governmental activities capital assets - Net	<u>\$ 834,203</u>	<u>\$ (56,094)</u>	<u>\$ (7,826)</u>	<u>\$ 770,283</u>

Note 4: Defined Benefit Pension Plan

Plan Description. The Library participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing, multiple-employer defined benefit pension plan as provided by Kansas law. KPERS provide 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.

Funding Policy. K.S.A. 74-4919 and K.S.A. 74-49,210 establishes the KPERS member-employee contribution rate. Effective July 1, 2009 KPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate at 4% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Service Code. Kansas 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. Kansas law sets a limitation on annual increases in the employer contribution rates.

Note 5: 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, 2012

Note 6: 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.

Note 7: Pledges Receivable

Unconditional pledges receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the contributions are expected to be received. Amortization of the discounts is reflected in contribution revenue. An allowance was established as 3% of the pledges receivable balance at December 31, 2012.

Pledges receivable are the result of a continuing campaign to solicit funds for the short- and long-term needs of the Foundation. Pledges are discounted to present cash flows at a rate of 2% at December 31, 2012. An allowance was established as 3% of the pledges receivable balance at December 31, 2012. Pledges receivable are as follows at December 31, 2012:

Due in one year or less	\$ 287,141
Due after one year through five years	230,074
Due after five years	<u>\$ 517,215</u>

Pledges receivable is comprised of the following at December 31, 2012:

Pledges receivable	\$ 517,215
Less: Allowance for doubtful accounts	(15,516)
Less: Present value discount	(18,600)
Net Pledges Receivable	<u>\$ 483,099</u>

Note 8: Subsequent Events

Management has evaluated subsequent events through April 15, 2013, which is also the date on which the financial statements were issued.

On March 26, 2013 an agreement was made between the City of Manhattan, the Library, and the Foundation where the City has agreed to issue temporary notes and general obligation bonds to finance the construction of the Library's children center renovation project. The Foundation will issue payments to the City to repay these obligations. The payments to the City will be reduced by any direct construction costs paid by the Foundation.

SUPPLEMENTAL INFORMATION

MANHATTAN PUBLIC LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL AND EMPLOYEE BENEFIT FUNDS
 For the Year Ended December 31, 2012

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	\$ 2,073,910	\$ 2,022,061	\$ (51,849)	\$ 439,800	\$ 427,480	\$ (12,320)
Reimbursements and miscellaneous revenue	-	590	590	-	-	-
Total Revenues	<u>\$ 2,073,910</u>	<u>\$ 2,022,651</u>	<u>\$ (51,259)</u>	<u>\$ 439,800</u>	<u>\$ 427,480</u>	<u>\$ (12,320)</u>
EXPENDITURES						
Salaries and employee benefits	\$ 1,434,700	\$ 1,397,795	\$ 36,905	\$ -	\$ -	\$ -
Building and grounds	168,600	148,694	19,906	-	-	-
Technology	133,860	110,751	23,109	-	-	-
Materials	247,000	258,588	(11,588)	-	-	-
Administrative	89,750	76,701	13,049	-	-	-
Miscellaneous	-	-	-	-	-	-
Employee benefits	-	-	-	439,800	456,329	(16,529)
Total Expenditures	<u>\$ 2,073,910</u>	<u>\$ 1,992,529</u>	<u>\$ 81,381</u>	<u>\$ 439,800</u>	<u>\$ 456,329</u>	<u>\$ (16,529)</u>
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ 30,122	\$ 30,122	\$ -	\$ (28,849)	\$ (28,849)
FUND BALANCE - BEGINNING OF YEAR	-	33,876	(33,876)	-	113,639	(113,639)
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ 63,998</u>	<u>\$ (63,998)</u>	<u>\$ -</u>	<u>\$ 84,790</u>	<u>\$ (84,790)</u>

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

Supplemental Information

MANHATTAN PUBLIC LIBRARY
 Manhattan, Kansas
BUDGETARY COMPARISON SCHEDULE - BUDGET-TO-GAAP RECONCILIATION
 For the Year Ended December 31, 2012

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	\$ 2,022,651	\$ 427,480
<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, 2012	-	-
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	\$ 2,022,651	\$ 427,480
Total Expenditures - Budgetary Basis as reported on the Budgetary Comparison Schedule	\$ 1,992,529	\$ 456,329
<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, 2012

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, 2011	-	-
Encumbrances at December 31, 2012	-	-
Total Expenditures - GAAP Basis as reported on the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balances	\$ 1,992,529	\$ 456,329

Supplemental Information