

**THE HUTCHINSON PUBLIC LIBRARY
HUTCHINSON, KANSAS**

**FINANCIAL STATEMENTS
With
Independent Auditor's Report**

FOR THE YEAR ENDED DECEMBER 31, 2009



SWINDOLL
JANZEN
HAWK &
LOYD, LLC

Certified Public Accountants

B. Carver Swindoll, CPA
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hutchinson Public Library
Hutchinson, Kansas

We have audited the accompanying statutory basis financial statements of the Hutchinson Public Library, Hutchinson, Kansas as of and for the year ended December 31, 2009, which collectively comprise the basic financial statements of the Library's primary government as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion 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 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 financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements do not include financial data for the Library's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the Library's primary government unless the Library also issues financial statements for the financial reporting entity that includes the financial statements. The Library has not issued such reporting entity financial statements. The effect on the financial statements of the omission of the component units, although not reasonably determinable, is presumed to be material.

As discussed more fully in Note 1, the Library has prepared these financial statements using the accounting practices prescribed or permitted by the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

As discussed more fully in Note 1, the Library has prepared these financial statements using the accounting practices prescribed or permitted by the State of Kansas, which require that investments are reported at cost. During the year, these investments experienced some market recoveries from prior year losses. However, fair market value amounts are still below cost. The effect on the financial statements of the variances between cost and fair market value, are material. Details are shown in Note 3.

In our opinion, because of the omission of the financial data of component units of the Library and because of the Library's policy to prepare its financial statements on the statutory basis of accounting, as described in the preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Hutchinson Public Library as of December 31, 2009, or the changes in financial position for the year then ended. Further, the Library has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of each fund of Hutchinson Public Library as of December 31, 2009 and their respective cash receipts and expenditures compared to budget, for the year ended on the basis of accounting described in Note 1.

Swindal, Janzen, Hank & Lopt, LLC

Certified Public Accountants

March 12, 2010

**THE HUTCHINSON PUBLIC LIBRARY
HUTCHINSON, KANSAS**

SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH

For the Year Ended December 31, 2009

<u>Funds</u>	<u>Beginning Unencumbered Cash Balance</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending Unencumbered Cash Balance</u>	<u>Add: Outstanding Encumbrances and Accounts Payable</u>	<u>Ending Cash Balance</u>
GENERAL FUND	\$ 169,207	\$ 1,379,057	\$ 1,366,789	\$ 181,475	\$ 12,033	\$ 193,508
SPECIAL REVENUE FUNDS						
Employee Benefits Fund	36,124	226,577	228,053	34,648		34,648
Building Fines and Fees	24,790	56,096	42,579	38,307		38,307
SCKLS Allocation	149,433	110,583	93,595	166,421	-	166,421
Capital Improvements	36,000	40,000	98	75,902	-	75,902
Kan-Ed Subsidy	6	-	-	6	-	6
State Grants in Aid	-	25,155	25,155	-	-	-
Interlibrary Loan Dvlp Plan Grant	16,376	11,544	16,424	11,496		11,496
Expendable Gift Fund	1,145,716	114,855	159,601	1,100,970	-	1,100,970
Total Special Revenue Funds	1,408,445	584,810	565,505	1,427,750	-	1,427,750
PERMANENT FUNDS						
Nonexpendable Gift Fund	948,699	200	-	948,899	-	948,899
Total Permanent Funds	948,699	200	-	948,899	-	948,899
Totals Reporting Entity (Excluding Agency Funds)	\$ 2,526,351	\$ 1,964,067	\$ 1,932,294	\$ 2,558,124	\$ 12,033	\$ 2,570,157

COMPOSITION OF CASH:

Petty Cash	\$ 200
Checking and savings accounts	738,301
U.S. Federal bonds (Note 3)	300,214
Federated money market funds (Note 3)	12,978
	<u>1,051,692</u>

Private gift monies invested by authority of KSA 12-1225 (Note 1 (g)):

Equity pool at community foundation (Note 3)	271,075
Stocks and bonds at local financial institution (Note 3)	1,247,390
	<u>1,518,465</u>

Total Reporting Entity (Excluding Agency Funds) \$ 2,570,157

THE HUTCHINSON PUBLIC LIBRARY
HUTCHINSON, KANSAS

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET
(Budgeted Funds Only)
For the Year Ended December 31, 2009

<u>Funds</u>	<u>Certified Budget</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Favorable (Unfavorable)</u>
GENERAL OPERATING FUND	\$ 1,546,695	\$ 1,366,789	\$ 179,906
SPECIAL REVENUE FUNDS:			
Employee Benefits Fund	253,064	228,053	25,011
Building Fines & Fees Fund	83,849	42,579	41,270
SCKLS Allocation Fund	192,144	93,595	98,549
Total Special Revenue Funds	529,057	364,227	164,830
Total Reporting Entity	\$ 2,075,752	\$ 1,731,016	\$ 344,736

**THE HUTCHINSON PUBLIC LIBRARY
HUTCHINSON, KANSAS**

GENERAL FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2009

	<u>Actual</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
Cash Receipts			
Taxes-local	\$ 1,377,294	\$ 1,355,265	\$ 22,029
Earnings on investments	1,763	10,000	(8,237)
Total Cash Receipts	1,379,057	\$ 1,365,265	\$ 13,792
Expenditures			
Audit and budget	8,750	\$ 8,980	\$ 230
Library materials	29,463	102,000	72,537
Online services	23,126	26,000	2,874
OCLC	11,729	18,900	7,171
Equipment and maintenance	11,248	25,000	13,752
Insurance	17,231	18,900	1,669
Miscellaneous	-	1,000	1,000
Periodicals	24,744	25,000	256
Postage	23,208	29,000	5,792
Public relations	7,158	7,000	(158)
Contractual services	23,343	25,000	1,657
Building maintenance	31,913	31,500	(413)
Salaries	984,440	995,128	10,688
Supplies	31,414	30,000	(1,414)
Travel	2,425	3,000	575
Utilities	52,808	63,000	10,192
Computer services	43,789	97,287	53,498
Contingency - Transfer out Capital Improvement Fund	20,000	20,000	-
Capital Impr - Transfer out Capital Improvement Fund	20,000	20,000	-
Total Expenditures	1,366,789	\$ 1,546,695	\$ 179,906
Receipts over (under) Expenditures	12,268		
Unencumbered Cash, Beginning	169,207		
Unencumbered Cash, Ending	\$ 181,475		

THE HUTCHINSON PUBLIC LIBRARY
HUTCHINSON, KANSAS

SPECIAL REVENUE FUND

EMPLOYEE BENEFITS FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2009

	<u>Actual</u>	<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>
Cash Receipts			
Taxes - local	\$ 226,577	\$ 219,652	\$ 6,925
Expenditures			
Workers' compensation	12,066	\$ 10,812	\$ (1,254)
Social security and medicare	75,352	73,200	(2,152)
KPERs	56,475	62,578	6,103
Health insurance	75,664	98,224	22,560
Unemployment insurance	945	1,000	55
Life insurance	6,001	5,500	(501)
Cafeteria plan management	1,550	1,750	200
Total Expenditures	<u>228,053</u>	<u>\$ 253,064</u>	<u>\$ 25,011</u>
Receipts Over (Under) Expenditures	(1,476)		
Unencumbered Cash, Beginning	<u>36,124</u>		
Unencumbered Cash, Ending	<u>\$ 34,648</u>		

THE HUTCHINSON PUBLIC LIBRARY
HUTCHINSON, KANSAS

SPECIAL REVENUE FUND

BUILDING FINES AND FEES FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2009

	<u>Actual</u>	<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>
Cash Receipts			
Fines and fees	\$ 54,691	\$ 52,000	\$ 2,691
Investment income	1,405	8,000	(6,595)
	<u>56,096</u>	<u>\$ 60,000</u>	<u>\$ (3,904)</u>
Expenditures			
Operating expenses	30,640	\$ 35,000	\$ 4,360
Equipment and maintenance	-	48,849	48,849
Copier expense	9,772	-	(9,772)
Microfilm expense	615	-	(615)
Supply expense	1,552	-	(1,552)
	<u>42,579</u>	<u>\$ 83,849</u>	<u>\$ 41,270</u>
Receipts Over (Under) Expenditures	13,517		
Unencumbered Cash, Beginning	<u>24,790</u>		
Unencumbered Cash, Ending	<u>\$ 38,307</u>		

THE HUTCHINSON PUBLIC LIBRARY
HUTCHINSON, KANSAS

SPECIAL REVENUE FUND

SCKLS ALLOCATION FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
For the Year Ended December 31, 2009

	<u>Actual</u>	<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>
Cash Receipts			
Allocation from SCKLS	\$ 110,583	\$ 75,000	\$ 35,583
Expenditures			
Library materials	43,264	\$ 121,144	\$ 77,880
Equipment and maintenance	13,693	15,000	1,307
Postage	7,661	1,000	(6,661)
Salaries	12,400	40,000	27,600
Travel	4,937	15,000	10,063
Contractual services	1,591	-	(1,591)
Operating expenses	10,049	-	(10,049)
Total Expenditures	<u>93,595</u>	<u>\$ 192,144</u>	<u>\$ 98,549</u>
Receipts over (under) Expenditures	16,988		
Unencumbered Cash, Beginning	<u>149,433</u>		
Unencumbered Cash, Ending	<u>\$ 166,421</u>		

THE HUTCHINSON PUBLIC LIBRARY
HUTCHINSON, KANSAS

SPECIAL REVENUE FUND

CAPITAL IMPROVEMENT FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL
For the Year Ended December 31, 2009

	<u>Actual</u>
Cash Receipts	
Transfer from General Fund	\$ 40,000
Expenditures	
Equipment and maintenance	<u>98</u>
Total Expenditures	<u>98</u>
Receipts over (under) Expenditures	39,902
Unencumbered Cash, Beginning	<u>36,000</u>
Unencumbered Cash, Ending	\$ <u>75,902</u>

THE HUTCHINSON PUBLIC LIBRARY
HUTCHINSON, KANSAS

SPECIAL REVENUE FUNDKAN-ED SUBSIDY FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL
For the Year Ended December 31, 2009

	<u>Actual</u>
Cash Receipts	
State aid	\$ -
Expenditures	
Operating expense	<u>-</u>
Receipts over (under) Expenditures	-
Unencumbered Cash, Beginning	<u>6</u>
Unencumbered Cash, Ending	<u>\$ 6</u>

THE HUTCHINSON PUBLIC LIBRARY
HUTCHINSON, KANSASSPECIAL REVENUE FUNDSTATE GRANTS IN AID FUNDSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL
For the Year Ended December 31, 2009

	<u>Actual</u>
Cash Receipts	
State aid	\$ 25,155
Expenditures	
Salary expense	<u>25,155</u>
Receipts over (under) Expenditures	-
Unencumbered Cash, Beginning	<u>-</u>
Unencumbered Cash, Ending	<u>\$ -</u>

**THE HUTCHINSON PUBLIC LIBRARY
HUTCHINSON, KANSAS**

SPECIAL REVENUE FUND

INTERLIBRARY LOAN DEVELOPMENT PLAN GRANT FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL
For the Year Ended December 31, 2009

	<u>Actual</u>
Cash Receipts	
State aid	\$ 11,544
Expenditures	
Library materials	14,115
Salaries	2,309
Total Expenditures	16,424
Receipts over (under) Expenditures	(4,880)
Unencumbered Cash, Beginning	16,376
Unencumbered Cash, Ending	\$ 11,496

THE HUTCHINSON PUBLIC LIBRARY
HUTCHINSON, KANSAS

SPECIAL REVENUE FUNDEXPENDABLE GIFT FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL
For the Year Ended December 31, 2009

	<u>Actual</u>
Cash Receipts	
Contributions	\$ 114,451
Earnings on investments	40,995
Loss on investments	<u>(40,591)</u>
Total Cash Receipts	<u>114,855</u>
Expenditures	
Library materials	116,181
Online services	26,213
Miscellaneous operations	1,032
Contractual services	14,850
Operating expenses	<u>1,325</u>
Total Expenditures	<u>159,601</u>
Receipts over (under) Expenditures	(44,746)
Unencumbered Cash, Beginning	<u>1,145,716</u>
Unencumbered Cash, Ending	<u>\$ 1,100,970</u>

THE HUTCHINSON PUBLIC LIBRARY
HUTCHINSON, KANSASPERMANENT FUNDNONEXPENDABLE GIFT FUNDSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL
For the Year Ended December 31, 2009

	<u>Actual</u>
Cash Receipts	
Contributions	<u>\$ 200</u>
Total Cash Receipts	<u> 200</u>
Expenditures	
Operating expenses	<u> -</u>
Receipts over (under) Expenditures	200
Unencumbered Cash, Beginning	<u> 948,699</u>
Unencumbered Cash, Ending	<u>\$ 948,899</u>

THE HUTCHINSON PUBLIC LIBRARY
NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Hutchinson Public Library (Library) was formed in the year 1901 under the provisions of KSA 12-1222 to meet the informational and educational needs of all residents of the City of Hutchinson, Kansas. The Library is governed by a seven-member board.

The accounting policies of the Hutchinson Public Library conform to the statutory basis of accounting which demonstrates compliance with the cash basis and budget laws of Kansas. The following is a summary of the more significant policies:

(a) Reporting Entity

The Library's financial statements include all of the funds for which the Library Board directly administers and controls. The statements do not include the component units of the Library as follows:

- **Max and Elizabeth Ontjes Foundation, Inc.** - The Max and Elizabeth Ontjes Foundation, Inc. is a corporation organized and qualified for nonprofit status under Internal Revenue Code Section 501(c)3. The Foundation is a component unit because it exists to benefit the Library. The Foundation is administered by the First National Bank of Hutchinson, Hutchinson, Kansas, and financial information can be obtained by contacting the First National Bank.
- **Friends of the Hutchinson Public Library, Inc.** - The Friends of the Hutchinson Public Library (Friends) is a corporation organized and qualified for nonprofit status under Internal Revenue Code Section 501(c)3. Friends is a component unit because it exists to benefit the Library. Friends is administered by volunteer members and financial information can be obtained by contacting the Hutchinson Public Library.
- **Henrietta L. Jones Endowment Fund** - The Henrietta L. Jones Endowment Fund is an endowment set up at the Hutchinson Community Foundation. This fund is a component unit because it exists to benefit the Library. The fund is administered by the Hutchinson Community Foundation and financial information can be obtained by contacting the Hutchinson Public Library.
- **Ruth M. Schroll Fund** - The Ruth M. Schroll Fund is a fund set up at the Hutchinson Community Foundation. This fund is a component unit because it exists to benefit the Library. The fund is administered by the Hutchinson Community Foundation and financial information can be obtained by contacting the Hutchinson Public Library.

The Library is a related organization to the City of Hutchinson, Kansas. The City is accountable for the Library since the City appoints a voting majority of the Library Board. However, the City of Hutchinson is not financially accountable for the Library.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(b) Basis of Presentation - Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The funds of the Library are categorized as below:

Governmental Fund Type

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

Special Revenue Funds - The Special Revenue Funds are used to account for the proceeds of revenue sources that are restricted to expenditures for specified purposes. The Library has the authority through Kansas Statute 12-1225 to maintain Special Revenue Funds for various sources of money.

Permanent Funds - These funds represent gifts received by the Library that are legally restricted to the extent that only earnings, and not principal, may be used to support the Library's programs.

(c) Statutory Basis of Accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The municipality has approved a resolution that is in compliance with KSA 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the statutory basis of accounting.

(d) Departure from Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial statement presentation which shows cash receipts, expenditures, cash, unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the municipality are presented only in the footnotes to the financial statements. Also, capital leases and compensated absences are presented only in the footnotes to the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(e) Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting as described above. Any unused budget expenditure authority lapses at year-end.

A legal operating budget is not required for the capital improvements fund, donation funds, state grant funds, and federal grant funds. Spending in funds which are not subject to the legal annual operating budget requirement are controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

(f) Property Tax Information

These taxes become a lien against all property November 1st. Taxpayers have the option of paying taxes in full or in two installments. The delinquency dates are December 20th and May 10th. Delinquent taxes are assessed interest and this interest is retained by the county treasurer.

(g) Cash and Investments

Cash includes amounts in demand and time deposits at financial institutions. Investments are governed by Kansas Statutes (KSA). KSA 12-1675 governs the investing of public funds. KSA 12-1225 governs the investing of private gift money given to the Library. KSA 12-1675 authorizes the Library to invest public funds in U.S. Treasury bills and notes, repurchase agreements, the State Municipal Investment Pool, and others. KSA 12-1225 authorizes the Library Board to invest private gift monies in the manner to best serve the interests of the Library. Investments relating to private gift money consist of U.S. Treasury obligations, federal agency obligations, common stocks, various other bond instruments, and others.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Investments are reported at cost on the books of the Library. The fair value of these investments are reflected in footnote 3. Fair value of U.S. Treasury obligations, federal agency obligations, stocks, and bonds are determined by published market quotes. The fair value of funds at the community foundation is based on the value of the pooled investments as determined by the Hutchinson Community Foundation manager. The Hutchinson Community Foundation is a nonprofit organization that pools money for investment purposes.

(h) Compensated Absences

The Library is liable for payments to employees for sick pay earned according to Library personnel policies. This liability is not included as an expenditure of the Library which is consistent with the basis of accounting indicated in Note 1(c) above. This liability is included in Note 5 - Long-Term Debt.

(i) Risk Management

The Library carries commercial insurance to limit its exposure to various risks of loss related to torts; theft of; damage to and destruction of assets; errors and omissions; and natural disasters. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Compliance with Kansas Statutes.

No Statutory violations noted in 2009.

3. DEPOSITS AND INVESTMENTS

Deposits - Interest rate risk - KSA 9-1401 establishes the depositories which may be used by Kansas governments. The statute requires banks eligible to hold the government's funds have a main or branch bank in the county in which the government 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, KSA 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.

Deposits - Custodial credit risk - The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Kansas statutes 9-1402 and 9-1405 require that governments obtain security for all deposits. The Library manages its custodial credit risk through FDIC coverage, by requiring the financial institutions to grant a security interest in securities held by third-party custodial banks, or by obtaining deposit guaranty bonds. All deposits were legally secured at December 31, 2009.

3. DEPOSITS AND INVESTMENTS (CONT.)

Investments - The Library has the following investments as of the end of the year:

	Book Carrying Value	Fair Value	Average Credit Quality Rating (1)	Weighted Average Years to Maturity
Investments managed by outside financial institution:				
Federated money market fund	\$ 12,978	\$ 12,978	N/A	
Federal agencies	300,214	316,615	Aaa	2.23
Stock common	954,312	806,614	N/A	
Mutual fund	39,869	41,660	N/A	
Corporate bonds	253,209	265,056	A-A2	3.95
Investments managed by an outside community foundation:				
Equity pool	271,075	263,208	N/A	
	<u>\$ 1,831,657</u>	<u>\$ 1,706,131</u>		

(1) Ratings are provided to indicate credit risk. N/A indicates not applicable.

Investment Policy for Public Funds:

Interest rate risk - In accordance with Kansas statute 12-1675, the Library manages its exposure to interest rate fluctuations by limiting all time investments to maturities of two years or less.

Credit risk - State law limits the amount of credit risk by restricting governments to specific investment types as listed in KSA 12-1675. The Library's practice is to place idle funds in money market accounts, certificates of deposit, and U.S. Treasury obligations.

Concentration of credit risk - This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. State statutes place no limit on the amount the government may invest in any one issuer as long as the investments are adequately secured under KSA 9-1402 and 9-1405.

Custodial credit risk - investments - The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Monies in the obligations of the United States are not required to be secured by Kansas statutes.

Investment Policy for Private Funds:

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities.

Credit risk - Credit risk is the risk that an issuer to an investment will not fulfill its obligations. Through the investment policies of the outside financial institution, the Library limits its investments in commercial paper and corporate bonds. The Library's investments in debt holdings were rated Aaa to A by Moody's Investor Service and AAA to A by Standard and Poor's Ratings.

3. DEPOSITS AND INVESTMENTS (CONT.)

Concentration of credit risk - This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Library's investments are diversified among various issuers and industry types. The percentage attributable to anyone single issuer, averages less than 5%.

Custodial credit risk - investments - Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of investments that are in the possession of an outside party. The Library's investments held at the community foundation may be subject to this risk as the underlying investments are held by the community foundation. The amount at risk is approximately \$271,000.

4. CAPITAL ASSETS

The presentation of the financial statements in accordance with the statutory basis of accounting does not include the capital assets of the Library. The Library continues to maintain records on capital assets. The balances and activity stated at cost with no depreciation, are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 305,942	\$ -	\$ -	\$ 305,942
Building	2,918,489	-	-	2,918,489
Mobile equipment	30,797	-	-	30,797
Furniture	857,138	-	-	857,138
Electronic equipment	600,928	26,753	(1,600)	626,081
	<u>\$ 4,713,294</u>	<u>\$ 26,753</u>	<u>\$ (1,600)</u>	<u>\$ 4,738,447</u>

5. Long-Term liabilities

Long-term liabilities are as follows:

	Interest Rate	Date of Issue	Amount of issue	Date of Final Maturity
Capital Lease:				
Copier Equipment	17.56%	07/15/03	\$ 14,300	07/15/10

Changes in long-term liabilities for Hutchinson Public library for the year ended December 31, 2009, were as follows:

	Balance Beginning of Year	Additions	Reductions/ Payments	Balance End of Year	Interest Paid
Capital lease:					
Copier Equipment	\$ 4,668	\$ -	\$ 2,975	\$ 1,694	\$ 588

5. LONG-TERM LIABILITIES (CONT.)

Obligations under capital leases are as follows:

	<u>2010</u>
Principal:	
Capital Leases	\$ 1,694
Interest:	
Capital Leases	<u>88</u>
Total Principal and Interest	<u>\$ 1,782</u>

6. INTERFUND TRANSFERS

Transfers from one fund to another were as follows:

<u>From</u>	<u>To</u>	<u>Statutory Authority</u>	<u>Amount</u>
General	Capital Improvement	KSA-12-1258	\$ 40,000

7. PENSION COSTS AND EMPLOYEE BENEFITS

(a) Defined Benefit Pension Plan

Plan Description. The Hutchinson Public 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.

Funding Policy. 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 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 bases. State law sets a limitation on annual increases in the contribution rates for KPERs employers. The employer rate established for calendar year 2009 is 5.54%. The Library's contributions to KPERs for the years ending December 31, 2009, 2008, and 2007 were \$56,475, \$54,946, and \$42,786 respectively, equal to the required contributions for each year.

(b) Other Post Employment Benefits

As provided by K.S.A. 12-5040, the local government allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements which is consistent with the statutory basis of accounting.

8. CLAIMS AND JUDGMENTS

The Library participates in federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Library may be required to reimburse the grantor government. As of March 12, 2010, grant expenditures have not been audited, but the Library believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the Library.

The Library is exposed to various risks of loss related to property loss; torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and natural disasters. The Library has purchased commercial insurance for these potential risks. There have been no significant reductions in insurance coverage from 2008 to 2009 and there were no settlements that exceeded insurance coverage in the past three years.

During the ordinary course of its operations, the Library is a party to various claims, legal actions and complaints. It is the opinion of the Library's management and legal counsel that these matters are not anticipated to have a material impact on the Library.