

**THE HUTCHINSON PUBLIC LIBRARY
HUTCHINSON, KANSAS**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011

**THE HUTCHINSON PUBLIC LIBRARY
For the Year Ended December 31, 2011**

BOARD OF DIRECTORS

Robert Kelly
Chairman

Denise Neighbors
Treasurer

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Director

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Library Director

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Business Manager

John B. Swearer
Attorney

THE HUTCHINSON PUBLIC LIBRARY
HUTCHINSON, KANSAS

FINANCIAL STATEMENTS
For the Year Ended December 31, 2011

TABLE OF CONTENTS

Page
Numbers

Independent Auditor's Report..... 1 - 2

FINANCIAL SECTION

Statement 1 Summary of Cash Receipts, Expenditures
and Unencumbered Cash.....3

Statement 2 Summary of Expenditures - Actual and Budget4

Statement 3 Statement of Cash Receipts and Expenditures -
Actual and Budget

3-1 General Fund5

SPECIAL REVENUE

3-2 Employee Benefit Fund.....6

3-3 Billing Fines & Fees Fund7

3-4 SCKLS Allocation Fund.....8

3-5 Capital Improvements Fund.....9

3-6 Kan-Ed Subsidy Fund10

3-7 State Grants in Aid Fund.....11

3-8 Interlibrary Loan Development Plan Grant Fund12

3-9 Expendable Gift Fund13

PERMANENT FUND

3-10 Nonexpendable Gift Fund14

Notes to Financial Statements..... 15 – 23



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Certified Public Accountants

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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, 2011, 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. The prior year comparative information has been derived from the Library's December 31, 2010 financial statements and, in our report dated March 7, 2011 we expressed an unqualified opinion on the financial statements taken as a whole.

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 include the financial data for its component units. 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 in conformity with 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.

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, 2011, 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, 2011 and their respective cash receipts and expenditures compared to budget, for the year ended on the basis of accounting described in Note 1.

This report is intended solely for the information and use of management, the Board of Directors, others within the organization, and the State of Kansas and is not intended to be and should not be used by anyone other than these specified parties.

Swindoll, Janzen, Hawk & Loyd, LLC

Certified Public Accountants

April 12, 2012

THE HUTCHINSON PUBLIC LIBRARY
HUTCHINSON, KANSAS

SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
For the Year Ended December 31, 2011

<u>Funds</u>	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add: Encumbrances and Accounts Payable	Ending Cash Balance
GENERAL FUND	\$ 209,752	\$ 1,564,769	\$ 1,463,361	\$ 311,160	\$ 4,267	\$ 315,427
SPECIAL REVENUE FUNDS						
Employee Benefits Fund	70,885	253,362	241,346	82,901	-	82,901
Billing Fines and Fees Fund	46,905	50,027	40,343	56,589	-	56,589
SCKLS Allocation Fund	142,662	74,862	75,937	141,587	-	141,587
Capital Improvement Fund	155,902	100,000	146,552	109,350	-	109,350
Kan-Ed Subsidy Fund	6	-	6	-	-	-
State Grants in Aid Fund	-	20,048	20,048	-	-	-
Interlibrary Loan Dvlp Plan Grant Fund	2,652	-	86	2,566	-	2,566
Expendable Gift Fund	1,081,729	155,125	168,214	1,068,640	-	1,068,640
Total Special Revenue Funds	1,500,741	653,424	692,532	1,461,633	-	1,461,633
PERMANENT FUNDS						
Nonexpendable Gift Fund	950,814	1,610	-	952,424	-	952,424
Total Permanent Funds	950,814	1,610	-	952,424	-	952,424
Totals Reporting Entity (Excluding Agency Funds)	\$ 2,661,307	\$ 2,219,803	\$ 2,155,893	\$ 2,725,217	\$ 4,267	\$ 2,729,484

COMPOSITION OF CASH

Petty Cash	\$ 200
Checking and savings accounts	910,470
U.S. Federal bonds (Note 3)	223,446
Federated money market funds (Note 3)	40,178
	<u>1,174,294</u>

PRIVATE GIFT MONIES INVESTED BY AUTHORITY OF KSA 12-225 (NOTE 1)

Equity pool at community foundation (Note 3)	272,075
Stocks and bonds at local financial institution (Note 3)	1,283,115
	<u>1,555,190</u>

Total Reporting Entity (Excluding Agency Funds) \$ 2,729,484

THE HUTCHINSON PUBLIC LIBRARY
HUTCHINSON, KANSAS

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET
(Budgeted Funds Only)
For the Year Ended December 31, 2011

<u>Funds</u>	<u>Certified Budget</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Favorable (Unfavorable)</u>
GENERAL OPERATING FUND	\$ 1,790,325	\$ 1,463,361	\$ 326,964
SPECIAL REVENUE FUNDS			
Employee Benefits Fund	328,833	241,346	87,487
Building Fines & Fees Fund	86,136	40,343	45,793
SCKLS Allocation Fund	203,421	75,937	127,484
Capital Improvement Fund	<u>260,902</u>	<u>146,552</u>	<u>114,350</u>
Total Special Revenue Funds	<u>879,292</u>	<u>504,178</u>	<u>375,114</u>
Total Reporting Entity	<u>\$ 2,669,617</u>	<u>\$ 1,967,539</u>	<u>\$ 702,078</u>

THE HUTCHINSON PUBLIC LIBRARY
HUTCHINSON, KANSAS

GENERAL FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2011

	<u>2011</u>			Variance Favorable (Unfavorable)
	<u>2010 Actual</u>	<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Taxes-local	\$ 1,418,379	\$ 1,564,530	\$ 1,611,605	\$ (47,075)
Earnings on investments	576	233	1,000	(767)
Miscellaneous income	-	6	-	6
Total Cash Receipts	<u>1,418,955</u>	<u>1,564,769</u>	<u>\$ 1,612,605</u>	<u>\$ (47,836)</u>
Expenditures				
Audit and budget	10,137	9,850	\$ 10,000	\$ 150
Library materials	61,109	27,275	176,592	149,317
Online services	19,749	17,394	26,000	8,606
OCLC	21,791	24,725	18,900	(5,825)
Equipment and maintenance	14,146	14,488	25,000	10,512
Insurance	16,915	16,866	19,000	2,134
Miscellaneous	-	368	1,000	632
Periodicals	26,060	25,411	25,000	(411)
Postage	25,096	17,038	26,000	8,962
Public relations	6,508	6,990	7,300	310
Contractual services	27,993	24,752	45,000	20,248
Building maintenance	16,675	26,487	43,600	17,113
Salaries	988,671	1,014,951	1,034,933	19,982
Supplies	31,020	27,403	30,000	2,597
Travel	918	676	3,000	2,324
Utilities	58,611	70,895	64,000	(6,895)
Computer services	30,279	37,792	85,000	47,208
Contingency - Transfer to Capital Improvement Fund	15,000	-	-	-
Capital Impr - Transfer to Capital Improvement Fund	20,000	100,000	150,000	50,000
Total Expenditures	<u>1,390,678</u>	<u>1,463,361</u>	<u>\$ 1,790,325</u>	<u>\$ 326,964</u>
Receipts over (under) Expenditures	28,277	101,408		
Unencumbered Cash, Beginning	<u>181,475</u>	<u>209,752</u>		
Unencumbered Cash, Ending	<u>\$ 209,752</u>	<u>\$ 311,160</u>		

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, 2011

	2010 Actual	2011		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Taxes - local	\$ 271,705	\$ 253,362	\$ 259,558	\$ (6,196)
Miscellaneous	145	-	-	-
Total Cash Receipts	<u>271,850</u>	<u>253,362</u>	<u>\$ 259,558</u>	<u>\$ (6,196)</u>
Expenditures				
Workers' compensation	7,151	6,142	\$ 14,400	\$ 8,258
Social security and medicare	73,648	76,323	79,172	2,849
KPERs	68,657	76,120	80,104	3,984
Health insurance	77,667	75,268	145,597	70,329
Unemployment insurance	932	956	1,025	69
Life insurance	5,506	4,734	6,435	1,701
Cafeteria plan management	2,052	1,803	2,100	297
Total Expenditures	<u>235,613</u>	<u>241,346</u>	<u>\$ 328,833</u>	<u>\$ 87,487</u>
Receipts Over (Under) Expenditures	36,237	12,016		
Unencumbered Cash, Beginning	<u>34,648</u>	<u>70,885</u>		
Unencumbered Cash, Ending	<u>\$ 70,885</u>	<u>\$ 82,901</u>		

THE HUTCHINSON PUBLIC LIBRARY
HUTCHINSON, KANSAS

SPECIAL REVENUE FUND

BILLING FINES AND FEES FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2011

	<u>2011</u>			Variance Favorable (Unfavorable)
	2010 <u>Actual</u>	<u>Actual</u>	<u>Budget</u>	
Cash Receipts				
Fines and fees	\$ 50,154	\$ 49,974	\$ 52,620	\$ (2,646)
Investment income	49	53	1,500	(1,447)
Total Cash Receipts	<u>50,203</u>	<u>50,027</u>	<u>\$ 54,120</u>	<u>\$ (4,093)</u>
Expenditures				
Operating expenses	36,019	35,920	\$ 57,876	\$ 21,956
Equipment and maintenance	-	-	7,240	7,240
Copier expense	5,146	4,035	17,120	13,085
Microfilm expense	256	268	900	632
Supply expense	184	120	3,000	2,880
Total Expenditures	<u>41,605</u>	<u>40,343</u>	<u>\$ 86,136</u>	<u>\$ 45,793</u>
Receipts Over (Under) Expenditures	8,598	9,684		
Unencumbered Cash, Beginning	<u>38,307</u>	<u>46,905</u>		
Unencumbered Cash, Ending	<u>\$ 46,905</u>	<u>\$ 56,589</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, 2011

	2010 Actual	2011		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Allocation from SCKLS	\$ 78,625	\$ 74,862	\$ 75,000	\$ (138)
Expenditures				
Library materials	63,405	35,201	\$ 119,421	\$ 84,220
Equipment and maintenance	5,414	208	15,000	14,792
Postage	-	-	8,000	8,000
Salaries	2,400	2,400	40,000	37,600
Travel	5,059	3,932	15,000	11,068
Contractual services	26,006	23,268	-	(23,268)
Operating expenses	100	10,928	3,000	(7,928)
Other operations	-	-	3,000	3,000
Total Expenditures	<u>102,384</u>	<u>75,937</u>	<u>\$ 203,421</u>	<u>\$ 127,484</u>
Receipts over (under) Expenditures	(23,759)	(1,075)		
Unencumbered Cash, Beginning	<u>166,421</u>	<u>142,662</u>		
Unencumbered Cash, Ending	<u>\$ 142,662</u>	<u>\$ 141,587</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, 2011

	2010 Actual	2011		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Transfer from General Fund	\$ 80,000	\$ 100,000	\$ 150,000	\$ (50,000)
Expenditures				
Equipment and maintenance	-	146,552	\$ 260,902	\$ (114,350)
Receipts over (under) Expenditures	80,000	(46,552)		
Unencumbered Cash, Beginning	75,902	155,902		
Unencumbered Cash, Ending	\$ 155,902	\$ 109,350		

THE HUTCHINSON PUBLIC LIBRARY
HUTCHINSON, KANSAS

SPECIAL REVENUE FUND

KAN-ED SUBSIDY FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL
For the Year Ended December 31, 2011

	<u>2010 Actual</u>	<u>2011 Actual</u>
Cash Receipts		
State aid	\$ -	\$ -
Expenditures		
Operating expense	-	6
Receipts over (under) Expenditures	-	(6)
Unencumbered Cash, Beginning	<u>6</u>	<u>6</u>
Unencumbered Cash, Ending	<u>\$ 6</u>	<u>\$ -</u>

THE HUTCHINSON PUBLIC LIBRARY
HUTCHINSON, KANSAS

SPECIAL REVENUE FUND

STATE GRANTS IN AID FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL
For the Year Ended December 31, 2011

	<u>2010 Actual</u>	<u>2011 Actual</u>
Cash Receipts		
State aid	\$ 22,966	\$ 20,048
Expenditures		
Salary expense	<u>22,966</u>	<u>20,048</u>
Receipts over (under) Expenditures	-	-
Unencumbered Cash, Beginning	<u>-</u>	<u>-</u>
Unencumbered Cash, Ending	<u>\$ -</u>	<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, 2011

	<u>2010</u> <u>Actual</u>	<u>2011</u> <u>Actual</u>
Cash Receipts		
State aid	\$ -	\$ -
Expenditures		
Library materials	8,844	86
Salaries	-	-
Total Expenditures	<u>8,844</u>	<u>86</u>
Receipts over (under) Expenditures	(8,844)	(86)
Unencumbered Cash, Beginning	<u>11,496</u>	<u>2,652</u>
Unencumbered Cash, Ending	<u>\$ 2,652</u>	<u>\$ 2,566</u>

THE HUTCHINSON PUBLIC LIBRARY
HUTCHINSON, KANSAS

SPECIAL REVENUE FUNDEXPENDABLE GIFT FUNDSTATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL

For the Year Ended December 31, 2011

	<u>2010</u> <u>Actual</u>	<u>2011</u> <u>Actual</u>
Cash Receipts		
Contributions	\$ 111,318	\$ 114,133
Earnings on investments	12,357	40,992
Friends book festival	3,489	-
Total Cash Receipts	<u>127,164</u>	<u>155,125</u>
Expenditures		
Library materials	127,546	153,785
Online services	11,960	11,960
Miscellaneous operations	363	15
Contractual services	382	755
Operating expenses	6,154	1,699
Total Expenditures	<u>146,405</u>	<u>168,214</u>
Receipts over (under) Expenditures	(19,241)	(13,089)
Unencumbered Cash, Beginning	<u>1,100,970</u>	<u>1,081,729</u>
Unencumbered Cash, Ending	<u>\$ 1,081,729</u>	<u>\$ 1,068,640</u>

THE HUTCHINSON PUBLIC LIBRARY
HUTCHINSON, KANSAS

PERMANENT FUND

NONEXPENDABLE GIFT FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL
For the Year Ended December 31, 2011

	<u>2010 Actual</u>	<u>2011 Actual</u>
Cash Receipts		
Contributions	\$ 1,915	\$ 1,610
Expenditures		
Operating expenses	-	-
Receipts over (under) Expenditures	1,915	1,610
Unencumbered Cash, Beginning	<u>948,899</u>	<u>950,814</u>
Unencumbered Cash, Ending	<u>\$ 950,814</u>	<u>\$ 952,424</u>

THE HUTCHINSON PUBLIC LIBRARY

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

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 15th.
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

Property 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 21st and May 11th. 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 until paid 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. There have been no significant reductions in insurance coverage from 2010 to 2011 and there were no settlements that 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 2011.

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, 2011.

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	Weighted Average Years to Maturity
Investments managed by outside financial institution:				
Federated money market fund	\$ 40,178	\$ 40,178	N/A	2.11
Federal agencies	223,446	238,388	Aaa	
Stock common	667,291	606,781	N/A	
Mutual fund	413,492	382,606	N/A	
Corporate bonds	202,331	213,949	A-A2	2.45
Investments managed by outside community foundation				
Equity pool	<u>272,076</u>	<u>270,394</u>		
	<u>\$ 1,818,814</u>	<u>\$ 1,752,296</u>		

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 \$272,000.

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			Ending
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Land	\$ 305,942	\$ -	\$ -	\$ 305,942
Building	2,918,489	-	-	2,918,489
Mobile equipment	30,797	23,029	17,400	36,426
Furniture	857,138	6,665	-	863,803
Electronic equipment	<u>644,230</u>	<u>4,600</u>	<u>3,536</u>	<u>645,294</u>
	<u>\$ 4,756,596</u>	<u>\$ 34,294</u>	<u>\$ 20,936</u>	<u>\$ 4,769,954</u>

5. LONG-TERM LIABILITIES

No long-term liabilities during the year ended December 31, 2011.

6. INTERFUND TRANSFERS

Transfers from one fund to another were as follows:

<u>From</u>	<u>To</u>	<u>Statutory</u> <u>Authority</u>	<u>Amount</u>
General	Capital Improvement	KSA-1258	\$ 100,000

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 for employees hired before July 1, 2009. After this date the rate changes to 6%. 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 2011 is 6.74%. The Library's contributions to *KPERS* for the years ending December 31, 2011, 2010, and 2009 were \$76,120, \$68,657, and \$56,475 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.

(c) Other Employee Benefits

Vacation: The Library provides all regular full-time employees and eligible regular part-time employees with pay as follows:

1. Director or Professional Grade Employees with ten or more years of service will earn 160 hours annually with pay, accumulating at the monthly rate of 13 hours and 20 minutes. (Maximum accumulation will be 320 hours; $\frac{3}{4}$ time and $\frac{1}{2}$ time employees will accumulate 240 hours and 160 hours respectively).
2. Professional Grade Employees with less than 10 years of service or full-time employees with 10 years or more of service will earn 120 hours annually with pay, accumulating at the monthly rate of 10 hours. (Maximum accumulation will be 240 hours; $\frac{3}{4}$ times and $\frac{1}{2}$ time will accumulate to 180 hours and 120 hours respectively).
3. Other full-time employees will earn 80 hours annually with pay, accumulating at the monthly rate of 6 hours and 40 minutes. (Maximum accumulation will be 160 hours; $\frac{3}{4}$ times and $\frac{1}{2}$ time will accumulate to 120 hours and 80 hours respectively).

7. PENSION COSTS AND EMPLOYEE BENEFITS (CONT.)

(c) Other Employee Benefits (cont.)

Vacation leave in excess of accumulated maximum limits shall be forfeited as of December 31 of each year. No employee shall take more than two weeks vacation at one time, except when approved by the supervisor and the Library Director. Unearned vacation cannot be taken in advance. Vacation is to be recorded in fifteen minute intervals. When reported, any fraction of a quarter hour will be rounded to the next quarter hour. Vacation is to be scheduled in order not to disrupt the continuity of library service. No employee may take earned vacation without prior approval from his/her supervisor. Forms for requesting or recording annual leave are available from the employee's supervisor or the Business Office. The Business Office keeps a record of all absences, and employee leave balances are noted monthly on paycheck stub.

Sick Leave: Full-time employees earn sick leave beginning with the month of employment at the rate of 6.67 hours per month or 80 hours per year. Full-time employees may accrue up to 320 hours. Part-time employees earn sick leave beginning with the month of employment at the rate of 5 hours per month for $\frac{3}{4}$ time employees and 3.33 hours per month for $\frac{1}{2}$ time employees. $\frac{3}{4}$ time employees may accrue up to 240 hours and $\frac{1}{2}$ time employees may accrue up to 160 hours. Sick leave with pay is granted only after it has been earned and for the following reasons:

1. For the absence of the employee due to his/her own illness, injury, medical confinement or quarantine or as a result of childbirth, and recovery or related complications.
2. For the absence of the employee due to illness or injury of someone in the employee's immediate family, for which the employee's presence is needed. Immediate family is defined to mean a spouse, parent, child, grandparent or person for whom you have legal responsibility.
3. Medical or dental appointments. Part-time employees are encouraged to make appointments on their own time, if possible.

Once an employee has been absent for a period of five consecutive working days, the employee must obtain a doctor's certification to return to work. Vacation must be used for sick leave purposes after accrued sick leave is exhausted. Sick leave is to be recorded in fifteen-minute intervals. Forms for reporting sick leave are available from and must be approved by the employee's supervisor. Upon approval, the form should be forwarded to the Business Office. Scheduled appointments should be requested before appointment time on the Sick/Vacation form available from the employee's supervisor or the business office. Any employee who uses less than 25% of their sick leave earned annually will receive an extra day of vacation in January of the following year.

Sick Leave Pool: All employees working 20 hours or more are eligible to participate in the Library sick leave pool program. The purpose of the program is to contribute sick leave hours to a pool for use when members of the pool have exhausted their accumulated vacation and sick leave, and a physician states that they are unable to work.

Normal maternity delivery and illness of other family members are not covered by the program. New employees may join in their first month of employment. There will be open enrollment each year between December 1 and December 15. Employees who wish to discontinue participation in the sick leave pool program may do so at any time by notifying the Library Director in writing. Employees who withdraw are not eligible to re-enroll and the hours they have contributed will remain in the pool. At the time an employee retires or leaves employment, they may contribute up to 40 hours of accrued sick leave to the pool. A form for that purpose will be available in the business office.

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 April 12, 2012, 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 2010 to 2011 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.

9. SUBSEQUENT EVENTS

As of April 12, 2012, the date of this report, no material subsequent events have been noted.