

**CHARLESTON COUNTY LIBRARY,
A COMPONENT UNIT OF CHARLESTON COUNTY,
SOUTH CAROLINA**

**BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2012

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
YEAR ENDED JUNE 30, 2012
Charleston, South Carolina

CONTENTS

INDEPENDENT AUDITORS' REPORT	1-2
<hr/>	
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)	
Management's Discussion and Analysis	3 - 8
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements	
Balance Sheet – Governmental Funds	11
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in in Fund Balances – Governmental Funds to the Statement of Activates	13
Notes to Financial Statements	14 - 27
REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	
Budgetary Comparison Schedule – Governmental Funds (Budgetary Basis)	28 - 29
Notes to Budgetary Comparison Schedule – Governmental Funds (Budgetary Basis)	30
GOVERNMENT AUDITING STANDARDS REPORT	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	31 -32
Schedule of Findings and Responses	33

Independent Auditors' Report

Board of Trustees
Charleston County Library,
a Component Unit of Charleston County
Charleston, South Carolina

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Charleston County Library, a Component Unit of Charleston County, South Carolina**, (the Library) as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the Library as listed in the table of contents. These financial statements are the responsibility of the Library's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Charleston County Library, a Component Unit of Charleston County, South Carolina, as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2012, on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

Members

SC Association of Certified Public Accountants

NC Association of Certified Public Accountants

Members

Division for CPA Firms, AICPA

1

An Independently Owned Member
McGLADREY ALLIANCE

 **McGladrey**

PO Box 1588 (29484)
100 South Main Street, Suite G (29483)
Summerville, South Carolina
843-873-4400, Fax 843-873-7227
www.websterrogers.com

Board of Trustees
Charleston County Library,
a Component Unit of Charleston County
Charleston, South Carolina

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information on pages 3 through 8 and 28 through 30, respectively, 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.



Summerville, South Carolina
September 27, 2012

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

Management of the Charleston County Library, a Component Unit of Charleston County, South Carolina, (the Library) presents the following narrative overview of the financial activities of the Library for the fiscal year ended June 30, 2012. This information should be considered in conjunction with the Library's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the Library exceeded its liabilities at the close of the most recent fiscal year by \$3,949,088 (*net assets*). Of this amount, \$3,156,683 was invested in capital assets leaving \$755,695 in *unrestricted net assets* and \$36,710 in *restricted net assets*.
- The Library's total net assets decreased by \$881,106. This is due primarily to a decrease in program revenues. Notable decreases were \$400,289 in county appropriation, \$88,252 in federal grants, \$41,880 in state aid, and \$148,035 in library fines.
- Expenditures were \$917,221 less than budgeted. This was primarily due to personnel vacancies and other cost cutting measures.
- At the end of the fiscal year, assigned and unassigned fund balance for the general fund was \$1,766,550, or 12.2 percent of total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Library's basic financial statements. The basic financial statements include three components: government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains additional required supplementary information (budgetary comparison schedule) in addition to the basic financial statements themselves. These components are described below:

Government – Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Library's finances, in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the Library's financial position, which assists in assessing the Library's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid.

The *statement of net assets* presents information on all of the Library's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in the Library's net assets may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The *statement of activities* presents information showing how the Library's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for the Library.

The operations of the Library are considered *governmental activities* and are supported primarily by intergovernmental revenues. The Library does not have any business-type activities.

The government-wide financial statements can be found immediately following this discussion and analysis.

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on individual parts of the Library government, reporting the Library's operations in more detail than the government-wide statements. All of the funds of the Library are governmental funds.

Governmental funds – *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on the *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Library's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Library.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. These reconciliations are presented on the face of the governmental fund financial statements.

The Library maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the other nonmajor funds. The Library adopts an entity-wide annual appropriated budget for all activities except restricted gifts and related expenditures. A budgetary comparison schedule has been provided to demonstrate compliance with this budget.

The governmental funds financial statements can be found immediately following the government-wide statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the fund financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes both the original and final budget of the Library along with actual results of operations.

GOVERNMENT – WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Library, assets exceeded liabilities by \$3,949,088, at the close of the most recent fiscal year (See Table A-1).

By far the largest portion of the Library's net assets (79.9 percent) reflects its investment in capital assets (e.g., library materials, furniture, fixtures, and equipment); less any related debt used to acquire those assets that is still outstanding. The Library uses these capital assets to provide services to citizens; consequently, these assets are

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

not available for future spending. At June 30, 2012, the Library had a balance of *unrestricted net assets* (\$755,695) that may be used to meet the Library's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets. Restricted assets of \$36,710 are comprised of resources donated to the Library with restrictions as to their use.

At the end of the current fiscal year, the Library was able to report positive balances in all categories of net assets.

Table A-1
CHARLESTON COUNTY LIBRARY'S NET ASSETS

	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 2,575,302	\$ 3,061,022
Capital assets	<u>3,156,683</u>	<u>3,470,445</u>
Total assets	<u>5,731,985</u>	<u>6,531,467</u>
Long-term liabilities outstanding	1,142,014	1,016,981
Other liabilities	<u>640,883</u>	<u>684,292</u>
Total liabilities	<u>1,782,897</u>	<u>1,701,273</u>
Net assets:		
Invested in capital assets, net of related debt	3,156,683	3,470,445
Restricted	36,710	27,310
Unrestricted	<u>755,695</u>	<u>1,332,439</u>
Total net assets	<u>\$ 3,949,088</u>	<u>\$ 4,830,194</u>

Changes in Net Assets

The net assets of the Library decreased \$881,106 during the current fiscal year (See Table A-2). This decrease is equivalent to the excess of expenses over revenues for the current fiscal year. Key elements of this decrease are as follows:

- Capital assets decreased by \$313,762 due to current depreciation expense, net of costs of acquisitions.
- Personnel costs increased by \$126,636 due to a cost of living adjustment, net of decreased benefit costs.
- Notable decreases in program revenues were \$400,289 in county appropriation, \$88,252 in federal grants, \$41,880 in state aid, and \$148,035 in library fines.
- The increase in annual leave payable expensed in the current year was \$125,033.

Table A-2
CHARLESTON COUNTY LIBRARY'S CHANGES IN NET ASSETS

	<u>2012</u>	<u>2011</u>
Revenues:		
Program revenues:		
Charges for services	\$ 509,294	\$ 661,819
Operating grants and contributions	13,672,252	14,136,367
Capital grants and contributions	299,716	389,153
General revenues:		
Interest	<u>31</u>	<u>669</u>
Total revenues	<u>14,481,293</u>	<u>15,188,008</u>
Expenses:		
Personnel services – salaries, wages and employee benefits	10,305,051	10,178,415
Purchased services and materials	3,358,696	3,193,641
Depreciation	<u>1,698,652</u>	<u>1,778,203</u>
Total expenses	<u>15,362,399</u>	<u>15,150,259</u>
Increase (decrease) in net assets	(881,106)	37,749
Net assets – beginning of year	<u>4,830,194</u>	<u>4,792,445</u>
Net assets – end of year	<u>\$ 3,949,088</u>	<u>\$ 4,830,194</u>

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

For the most part, increases in expenses closely paralleled inflation and growth in demand for services.

Figure A-1
EXPENSES AND PROGRAM REVENUES – GOVERNMENTAL ACTIVITIES

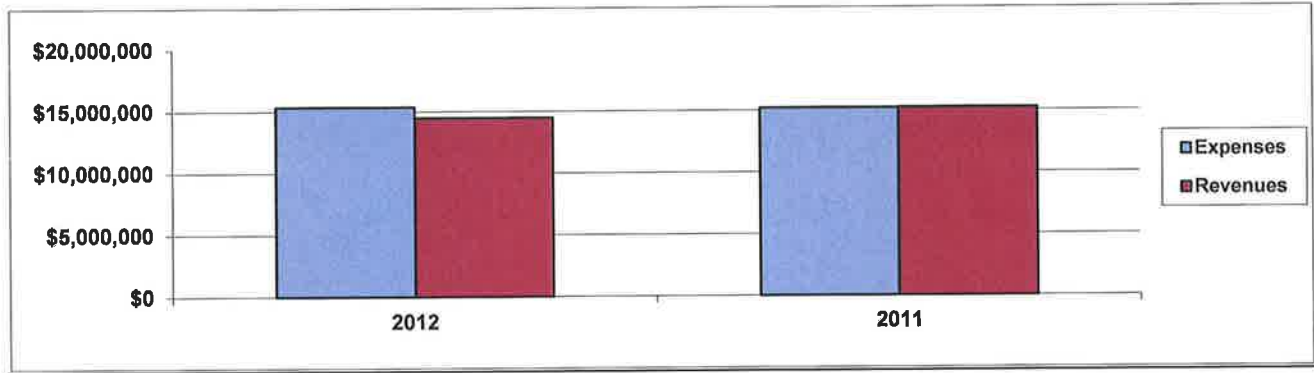


Figure A-2
REVENUES BY SOURCE – GOVERNMENTAL ACTIVITIES

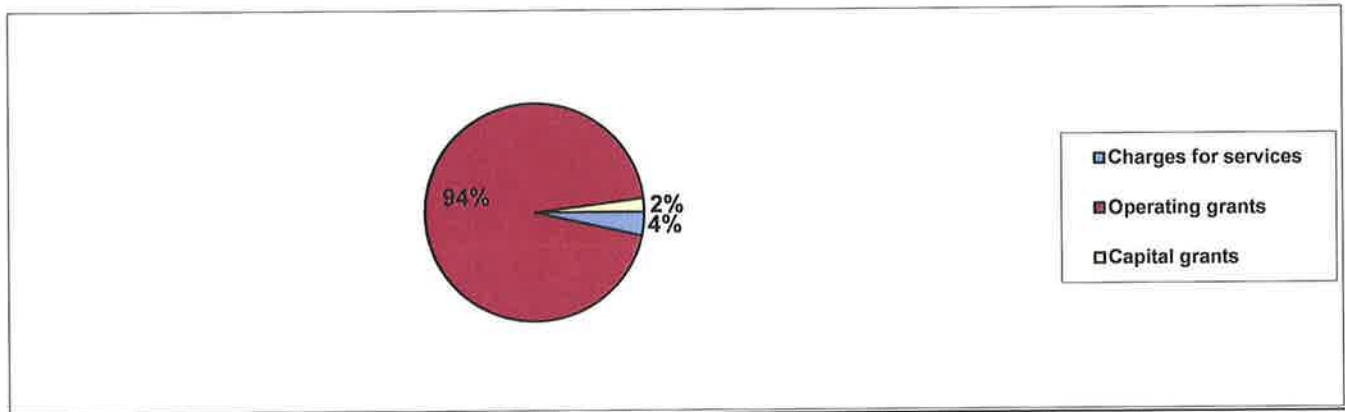
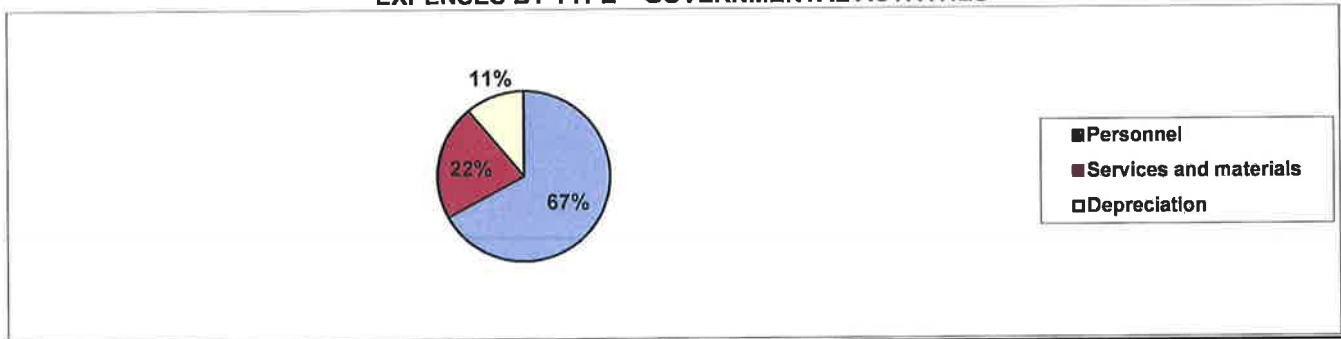


Figure A-3
EXPENSES BY TYPE – GOVERNMENTAL ACTIVITIES



CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

FINANCIAL ANALYSIS OF THE LIBRARY'S FUNDS

As noted earlier, the Library uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Library's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Library's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Library's governmental funds reported combined ending fund balances of \$1,934,419, a decrease of \$442,311 in comparison with the prior year. Approximately 15 percent of total fund balance (\$297,808) constitutes *unassigned fund balance*, which is available for spending at the Library Board's discretion. *Assigned fund balance* of \$1,470,063 represents 76 percent of the total. The majority of this (\$1,470,063) is assigned to finance a portion of the fiscal year 2013 budget. *Restricted fund balance* of \$36,710 has limitations imposed by contributors and can only be used for specific purposes. The remainder of fund balance is *nonspendable* to indicate that it is not available for new spending because it has already been spent for inventory of supplies and prepaid items.

The general fund is the chief operating fund of the Library. At the end of the current fiscal year, unassigned fund balance of the general fund was \$297,808 and assigned fund balance was \$1,468,742, while the total fund balance was \$1,896,388. As a measure of the general fund's liquidity, it may be useful to compare both unassigned and assigned fund balances and total fund balance to total fund expenditures. Unassigned and assigned fund balance represents 12.2 percent of total general fund expenditures, while total fund balance represents 13.1 percent of that same amount.

The Library's general fund balance decreased \$450,570 during the current fiscal year. The key factor for this increase was a decrease in county appropriation, federal grants, state aid, and fine revenues.

Figure A-4
REVENUES BY SOURCE – GOVERNMENTAL FUNDS

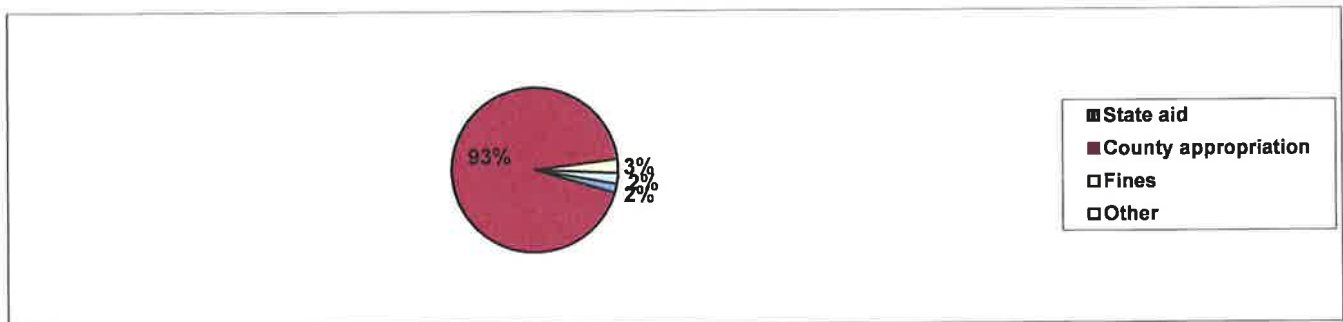
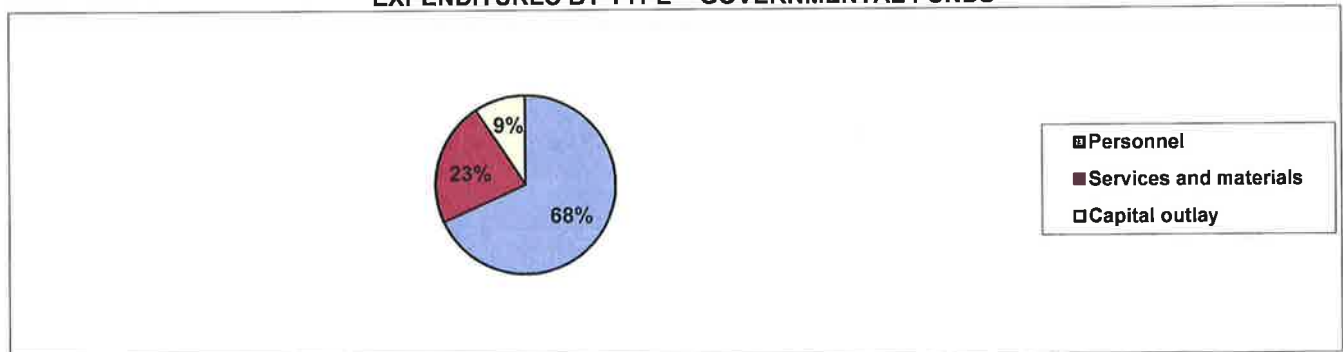


Figure A-5
EXPENDITURES BY TYPE – GOVERNMENTAL FUNDS



CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Library Board of Trustees amended the Library budget by increasing budgeted revenues and expenditures by \$169,595 to account for a cost of living adjustment provided to employees. Actual expenditures were \$917,221 below amended budget amounts. The most significant contribution to this variance was expenditures for personnel costs being \$549,413 less than budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Library's investment in capital assets as of year-end amounts to \$3,156,683 (net of accumulated depreciation). This investment in capital assets includes equipment, furnishings and library materials. The total decrease in the Library's investment in capital assets for the current fiscal year was 9.0 percent (See Table A-3).

Table A-3
CHARLESTON COUNTY LIBRARY'S CAPITAL ASSETS
(net of depreciation)

	<u>2012</u>	<u>2011</u>
Equipment and furnishings	\$ 73,196	\$ 132,594
Library materials	3,072,487	3,326,851
Artwork (not subject to depreciation)	<u>11,000</u>	<u>11,000</u>
Total	<u>\$ 3,156,683</u>	<u>\$ 3,470,445</u>

Major capital asset events during the current fiscal year included the following:

- Additional library materials were acquired for \$1,386,715 while materials totaling \$3,918,400 with accumulated depreciation of \$3,916,575 were removed.
- Equipment with costs and accumulated depreciation of \$506,823 was removed.
- Depreciation expense of \$1,698,652 was recognized in the government-wide financial statements.

Additional information on the Library's capital assets can be found in the notes immediately following the fund financial statements.

Debt Administration

The only long-term debt the Library has at this time is \$1,142,014 for annual leave payable, which increased by \$125,033 from the prior year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

State aid will increase by at least \$93,540 for fiscal year 2013; however, state lottery funds are expected to decrease by \$27,093. The Charleston County annual appropriation will be \$158,530 more than received in fiscal year 2012. The Board of Trustees has assigned \$1,470,063 of the fund balance of the general fund to maintain the Library's current level of service for fiscal year 2013.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Library's finances and demonstrate the Library's accountability for the money it receives. Any questions about this report or requests for information may be addressed to the Finance Manager, *Charleston County Library*, 68 Calhoun Street, Charleston, SC 29401.

BASIC FINANCIAL STATEMENTS

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 2,369,401
Receivables	76,063
Inventory of supplies	31,261
Prepaid expenditures	98,577
Capital assets	
Artwork and other non-depreciable assets	11,000
Other capital assets, net of accumulated depreciation	3,145,683
TOTAL ASSETS	5,731,985
LIABILITIES	
Accounts payable	448,796
Accrued payroll, benefits and payroll taxes payable	173,130
Deferred revenues	18,957
Long-term liabilities - compensated absences	
Due within one year	65,519
Due in more than one year	1,076,495
TOTAL LIABILITIES	1,782,897
NET ASSETS	
Invested in capital assets	3,156,683
Restricted	36,710
Unrestricted	755,695
TOTAL NET ASSETS	\$ 3,949,088

The accompanying Notes to Financial Statements are an integral part of this financial statement.

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

	Governmental Activities
EXPENSES	
Personnel services - salaries, wages, and employee benefits	\$ 10,305,051
Purchased services and materials	3,358,696
Depreciation	1,698,652
Total expenses	15,362,399
PROGRAM REVENUES	
Charges for services	509,294
Operating grants and contributions	13,672,252
Capital grants and contributions	299,716
Total program revenues	14,481,262
Net program expense	881,137
GENERAL REVENUES	
Interest income on cash and cash equivalents	31
Total general revenues	31
Change in net assets	(881,106)
NET ASSETS	
Beginning of year	4,830,194
End of year	\$ 3,949,088

The accompanying Notes to Financial Statements are an integral part of this financial statement.

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2012

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 2,316,790	\$ 52,611	\$ 2,369,401
Receivables	-	76,063	76,063
Due from other funds	71,686	-	71,686
Inventory of supplies, at cost	31,261	-	31,261
Prepaid expenditures	98,577	-	98,577
TOTAL ASSETS	<u>\$ 2,518,314</u>	<u>\$ 128,674</u>	<u>\$ 2,646,988</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 448,796	\$ -	\$ 448,796
Accrued payroll, benefits, and payroll taxes payable	173,130	-	173,130
Due to other funds	-	71,686	71,686
Deferred revenues	-	18,957	18,957
Total liabilities	<u>621,926</u>	<u>90,643</u>	<u>712,569</u>
Fund balances			
Nonspendable	129,838	-	129,838
Restricted	-	36,710	36,710
Assigned	1,468,742	1,321	1,470,063
Unassigned	297,808	-	297,808
Total fund balances	<u>1,896,388</u>	<u>38,031</u>	<u>1,934,419</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,518,314</u>	<u>\$ 128,674</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,156,683
Long-term liabilities - annual leave payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,142,014)</u>
Net assets of governmental activities	<u>\$ 3,949,088</u>

The accompanying Notes to Financial Statements are an integral part of this financial statement.

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
STATEMENT REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Intergovernmental revenues			
Lottery funds	\$ -	\$ 43,047	\$ 43,047
State aid income	-	256,669	256,669
County appropriation	13,520,899	-	13,520,899
Federal pass-thru grants	-	21,351	21,351
Fines	397,246	-	397,246
Miscellaneous income			
Copy machine charges	82,698	-	82,698
Interest	31	-	31
Gifts and unrestricted donations	-	1,390	1,390
Restricted donations	-	128,612	128,612
Other	29,350	-	29,350
TOTAL REVENUES	<u>14,030,224</u>	<u>451,069</u>	<u>14,481,293</u>
EXPENDITURES			
Current			
Personnel services - salaries, wages, and employee benefits	10,180,018	-	10,180,018
Purchased services and materials	3,213,757	143,114	3,356,871
Capital outlay	1,087,019	299,696	1,386,715
TOTAL EXPENDITURES	<u>14,480,794</u>	<u>442,810</u>	<u>14,923,604</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(450,570)	8,259	(442,311)
FUND BALANCE			
Beginning of year	2,346,958	29,772	2,376,730
End of year	<u>\$ 1,896,388</u>	<u>\$ 38,031</u>	<u>\$ 1,934,419</u>

The accompanying Notes to Financial Statements are an integral part of this financial statement.

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds \$(442,311)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$1,698,652) exceeded capital outlays (\$1,386,715) in the current period. (311,937)

In the statement of activities, the gain or loss on the disposal of capital assets is reported. Conversely, governmental funds report only proceeds (if any) from disposal of capital assets. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.

Cost of capital assets	\$ (4,425,223)	
Accumulated depreciation	<u>4,423,398</u>	(1,825)

The increase in annual leave payable decreases net assets. Annual leave payable is not due and payable in the current period and therefore is not reported in the funds. (125,033)

Change in net assets of governmental activities \$ (881,106)

The accompanying Notes to Financial Statements are an integral part of this financial statement.

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Charleston County Library System was established by the South Carolina Legislature in 1979 as part of the Charleston County Government, and subsequently was named the *Charleston County Library, Charleston, South Carolina* (the Library). The Library is a continuation of the original library system which was established in the 1930s. Its primary purpose is to provide public library services to the citizens of Charleston County (the County) through the operation of branch libraries located throughout the County and a bookmobile service operated throughout rural Charleston County, South Carolina. The Library is governed by an eleven member Board of Trustees, as appointed by Charleston County Council. The Library operates a headquarters, five regional branches, and ten other smaller branches.

Ms. Janet Segal – Chairperson	December 2012
Mr. Harlan Greene – Vice Chair	December 2013
Mrs. Bettye A. Chambers – Secretary	December 2013
Mr. Steven E. Clem – Treasurer	December 2014
Mrs. Judith D. Epps	December 2012
Ms. Jeanne T. Holladay	December 2012
Mr. Paul Everett Tinkler	December 2012
Ms. Maya Hollinshead	December 2013
Ms. Margaret Reider	December 2013
Mr. Ed Fava	December 2014
Mr. Peter A. McKellar, III	December 2014

B. Reporting Entity

The Library is considered to be a component unit of the Charleston County Government because of the significance of its operational and financial relationship with the County. The County appoints the Board of Trustees, can significantly influence operations, and provides substantial financial support to the Library. Additionally, County Council approves the Library's budget and bonded indebtedness for the benefit of the Library. Therefore, the Library is included in the financial statements of the County. The Library has no component units.

C. Funding Sources

The Library receives an appropriation from the County for general operations as well as payment by the County of certain overhead costs for items such as rent-free use of space and vehicles, and issuance of bonded indebtedness.

The Library receives funds from the State of South Carolina through an Annual State Aid Agreement, and various supplemental funds and grants. The State also acts as a flow-through organization for various federal funds.

The Library generates relatively small amounts of revenue from library operations such as gifts, memorials, copies, fines, and other small user fees.

The Library receives funds from private donations, fundraising, and grants from various not-for-profit entities.

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentations

Government-wide Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of a primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which a primary government is financially accountable. As of June 30, 2012, the Library has no business-type activities or component units.

The statement of activities demonstrates the degree to which the direct expenses 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 revenues include 1) charges to customers or applicants 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 meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

The accounts of the Library are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund accounting segregates funds according to their intended purposes and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in fund financial statements, when applicable. As of June 30, 2012, the Library has no proprietary or fiduciary funds.

The Library reports the following major governmental funds:

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

Additionally, the Library reports the following nonmajor fund type:

The Special Revenue Funds account for the revenue sources that are legally restricted to expenditures for specific purposes. Certain federal and state grant proceeds and private foundation restricted donations are accounted for in special revenue funds.

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements

E. Measurement Focus and Basis of Accounting

The basic financial statements of the Library have been prepared in conformity with generally accepted accounting principles as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Measurement Focus and Basis of Accounting (Continued)

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Library gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The Library's e-rate reimbursement, reported as miscellaneous revenue, is susceptible to accrual under this policy. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Amounts reported as *general revenues* include interest income.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed. The Board permits unrestricted funds to be expended in the following order: Committed, Assigned, and Unassigned.

F. Assets, Liabilities, and Net Assets or Equity

Deposits and investments

The Library considers cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition to be cash and cash equivalents.

Inventory of supplies

Inventory consists of various supplies used in the operation of the Library. Inventory is valued at the lower of cost or market, using the first-in – first-out method. The Library uses the consumption method of accounting to record inventory under which the cost of inventory is recorded as an expenditure when consumed rather than when purchased.

Prepays

Expenditures for maintenance contracts and periodical subscriptions which reflect costs attributable to future accounting periods are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Receivables

Accounts receivable in the amount of \$76,063 consist of amounts due from community nonprofit entities for purchases made by the Library on their behalf, in order to take advantage of the Library's more favorable pricing.

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Assets, Liabilities, and Net Assets or Equity (Continued)

Capital assets

Capital assets, which include artwork, other non-depreciable assets, library materials, equipment, and furnishings, are reported in the government-wide financial statements. With the exception of library materials, capital assets are defined by the Library as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Collections of library materials, such as books, videotapes, films, and audio tapes, are capitalized and included with equipment in the financial statements. Non-depreciable assets are technology projects that are ongoing, and will be depreciated once completed and operational.

The costs of normal maintenance and repairs that are exhaustible or that do not add to the value of the asset or materially extend assets lives are not capitalized. Because periodicals do not have a useful life beyond the year of purchase, the Library has not capitalized them.

Capital assets of the Library, with the exception of artwork and other non-depreciable assets, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Library materials	5
Equipment and furnishings	4-10

Compensated absences

It is the Library's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured; for example, as a result of employee resignations and retirements.

Long-term obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities.

Postemployment benefits

Postemployment benefits for the employees of the Charleston County Library are the liability of Charleston County. As a component unit of the County, the Library's employees were included in the actuary study as required by GASB 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions". A separate study was not performed for the Library's employees. As such, the County requires the Library to fund the County's liability at 4.65% of budgeted salaries.

Descriptive information of the plan and the County's expense and liability can be obtained from the Charleston County Finance office at the Lonnie Hamilton, III Public Service Building, 4045 Bridge View Drive, North Charleston, SC 29405 or at (843) 958-4600.

Contributed facilities

The Library occupies, without charge, certain buildings owned by the County, Trinity Episcopal Church, and the Towns of Mt. Pleasant, Folly Beach, and Hollywood. The estimated fair rental value of these contributed facilities is not readily determinable and, accordingly, is not recorded as revenue and expenditure.

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Assets, Liabilities, and Net Assets or Equity (Continued)

Contributed services

A substantial number of unpaid volunteers have made significant contributions of their time to assist in the Library's operations. The value of this contributed time (approximately 9,630 hours) is not reflected in these statements since it is not susceptible to objective measurement or valuation.

Gifts received

In the normal course of operations, the Library receives gifts from individuals and non-profit organizations. These gifts may take the form of cash, donated equipment or library materials, and financial support for special projects and staff development. Gifts received in cash are reflected in the Statement of Revenues and Expenditures and Changes in Fund Balances. The value of equipment and library materials donated to the Library is included in the Statement of Activities as capital grants and contributions. The value of such gifts is determined by fair value at the date of donation. Fair value is generally actual cost to the donor if the gifts are made to the Library immediately after acquisition.

Interfund activity

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Fund equity

Government-wide statements

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted."

Fund statements

Governmental fund equity can be classified as nonspendable, restricted, committed, assigned and unassigned.

Nonspendable fund balance represents portions of fund balances which are inherently nonspendable because of their form or because they must remain intact. Restricted fund balance represents externally imposed restrictions on use by grantors, contributors, laws or regulations of other governments or imposed by law through enabling legislation. Committed fund balances are self-imposed limitations imposed at the highest level of decision making through formal action. Assigned fund balances represent tentative plans by the Library for financial resource utilization in a future period. Such plans are subject to change from original authorizations and may never result in expenditures.

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Assets, Liabilities, and Net Assets or Equity (Continued)

Accounting estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the Library's management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates. Estimates include depreciation expense and library books.

II. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

A reconciliation of cash and investments as shown on the Balance Sheet follows:

Cash on hand	\$ 922
Carrying amount of deposits	<u>2,368,479</u>
Total cash and cash equivalents - per Balance Sheet	<u>\$ 2,369,401</u>

Additional disclosure regarding the Library's deposits and investments is located at Note I.F.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates.

The Library does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

State statutes authorize the Library to invest in the following:

- (1) Obligations of the United States and agencies thereof;
- (2) General obligations of the State of South Carolina or any of its political units;
- (3) Savings and loan association deposits to the extent insured by the Federal Depository Insurance Corporation;
- (4) Certificates of deposit and repurchase agreements collateralized by securities of the type described in (1) and (2) above held by a third party as escrow agent or custodian, of a market value not less than the amount of certificates of deposit and repurchase agreements so secured, including interest; and
- (5) No-load open or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit.

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

II. DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Deposits and Investments (Continued)

Credit Risk (Continued)

In addition, South Carolina State statutes authorize the Library to invest in the South Carolina Local Government Investment Pool (SCLGIP). The SCLGIP is an investment trust fund created pursuant to Section 6-6-10 of the South Carolina Code of Laws, and administered by the State Treasurer, in which public monies under the custody of any political subdivision in excess of current needs may be deposited. The SCLGIP is permitted to purchase obligations of the United States, its agencies and instrumentalities, and any corporation within the United States, if such obligations bear any of the three highest ratings of at least two nationally recognized rating services. The SCLGIP is a 2a7-like pool, which is not registered with the Securities and Exchange Commission (SEC) as an investment company, but has a policy that it will operate in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. The reported value of the Library's position in the pool, if any, is the same as the fair value of the pool shares.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are carried at fair value determined annually based upon quoted market prices. The total fair value of the Pool is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.00.

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of the Library's investment in a single issue. The Library places no limit on the amount the Library may invest in any one issuer.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. The Library does not have a policy for custodial credit risk. However, South Carolina state statutes provide that banks accepting deposits of funds from local government units must furnish an indemnity bond or pledge as collateral obligations of the United States, South Carolina, political subdivisions of South Carolina, the Federal National Mortgage Association, the Federal Home Loan Bank, the Federal Farm Credit Bank, or the Federal Home Loan Mortgage Corporation. As of June 30, 2012, the Library's bank balance of \$2,647,676 was fully insured or collateralized by investments held by the pledging financial institution's trust department or agent in the Library's name.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the 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.

As of June 30, 2012, the Library did not have any investments.

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

II. DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Changes in Capital Assets

Capital asset activity for the year ended June 30, 2012, follows:

	Balance Balance 6/30/2011	Increases	Decreases	Balance 6/30/2012
Capital assets not being depreciated				
Artwork	\$ 11,000	\$ -	\$ -	\$ 11,000
Total capital assets not being depreciated	11,000	-	-	11,000
Capital assets being depreciated				
Equipment and furnishings	2,744,822	-	(506,823)	2,237,999
Subtotal - equipment and furnishings	2,744,822	-	(506,823)	2,237,999
Library materials				
Books	17,916,754	1,014,185	(3,372,740)	15,558,199
Films, 8mm and 16 mm	28,675	-	(28,675)	-
Microfilm	342,431	13,861	(7)	356,285
Framed pictures	22,485	-	(8,871)	13,614
Video tapes	380,685	-	(88,401)	292,284
Compact discs	193,942	-	(13,707)	180,235
Cassettes	234,929	-	(113,728)	121,201
CD Rom Databases-Reference	83,245	-	(83,245)	-
Digital video discs	1,913,376	281,925	(114,577)	2,080,724
Audio books on CD Rom	1,222,534	76,744	(94,449)	1,204,829
Subtotal - library materials	22,339,056	1,386,715	(3,918,400)	19,807,371
Total capital assets being depreciated	25,083,878	1,386,715	(4,425,223)	22,045,370
Less accumulated depreciation				
Equipment and furnishings	(2,612,228)	(59,398)	506,823	(2,164,803)
Subtotal – equipment and furnishings	(2,612,228)	(59,398)	506,823	(2,164,803)
Library materials				
Books	(15,444,775)	(1,221,522)	3,372,740	(13,293,557)
Films, 8mm and 16 mm	(28,675)	-	28,675	-
Microfilm	(311,841)	(14,961)	7	(326,795)
Framed pictures	(22,485)	-	8,871	(13,614)
Video tapes	(380,685)	-	88,401	(292,284)
Compact discs	(183,940)	(7,196)	13,707	(177,429)
Cassettes	(233,052)	-	111,904	(121,148)
CD Rom Databases-Reference	(83,244)	-	83,244	-
Digital video discs	(1,346,088)	(272,269)	114,577	(1,503,780)
Audio books on CD Rom	(977,420)	(123,306)	94,449	(1,006,277)
Subtotal - library materials	(19,012,205)	(1,639,254)	3,916,575	(16,734,884)
Total accumulated depreciation	(21,624,433)	(1,698,652)	4,423,398	(18,899,687)
Total capital assets being depreciated, net	3,459,445	(311,937)	(1,825)	3,145,683
Total capital assets, net	\$ 3,470,445	\$ (311,937)	\$ (1,825)	\$ 3,156,683

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

II. DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Changes in Capital Assets (Continued)

The current year additions of \$1,386,715 were funded as follows:

	Library Materials
Library general fund – operations	\$ 1,087,019
General fund capital outlay	1,087,019
State aid & federal pass through grants	299,696
Library special revenue fund capital outlay	299,696
Capital outlay per statement of revenues and expenditures	\$ 1,386,715

C. Long-Term Liabilities

Compensated absences

The following is a summary of changes in long-term liabilities by the Library for the year ended June 30, 2012. Long-term liabilities of the Library are liquidated by the General Fund.

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due Within One Year
Compensated absences	\$1,016,981	\$ 565,836	\$ 440,803	\$ 1,142,014	\$ 65,519

D. Operating lease

In March 2008, the Library entered into a new lease agreement for copiers. The lease agreement is for a sixty month period commencing January 2008 with a minimum monthly charge of \$12,450 for a total minimum commitment of \$747,000 over the term of the lease. As of June 30, 2012, there are six months left in the lease term and future minimum lease payments for the remaining term of the lease is \$74,700.

In addition to this lease the Library holds other verbal agreements with various parties for the rental of Library branches. These leases run on a month-to-month basis and are cancelable by either party. Rental expense associated with the copier leases for the year ended June 30, 2012, is \$206,875.

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

II. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Equity

The Library has a nonspendable fund balance for inventory and prepaid expenditures, an assigned fund balance for expenditures related to remaining costs for subsequent year expenditures, and a restricted fund balance for grantor related restrictions. The remaining fund balance is unassigned. Changes in the components of General Fund fund balance for the year are as follows:

	<u>Nonspendable</u>	<u>Restricted</u>	<u>Assigned</u>	
	Inventory & Prepaid Items	By donors	Subsequent Years Expenditures	Unassigned
Balance, July 1, 2011	\$ 126,659	\$ 27,310	\$ 1,252,060	\$ 970,701
Increase (decrease) in asset balance	3,179	-	-	(3,179)
Increase (decrease) in restrictions by donors	-	9,400	-	(9,400)
Increase (decrease) in assignment by board	-	-	218,003	(218,003)
Excess of revenues over expenditures for the year ended June 30, 2012	-	-	-	(442,311)
Balance June 30, 2012	<u>\$ 129,838</u>	<u>\$ 36,710</u>	<u>\$ 1,470,063</u>	<u>\$ 297,808</u>

The statement of net assets reports \$36,710 of net assets restricted by donors.

III. OTHER INFORMATION

A. Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, and natural disasters. For all of these risks, the Library is insured through the County's participation as a member in the State of South Carolina Insurance Reserve Fund, a public entity risk pool currently operating as a common risk management and insurance program for local governments. The State Insurance Reserve Fund is self-sustaining through member premiums and reinsures through commercial companies for certain claims. The Library is insured through the County's coverage at a cost to the Library of \$89,967.

The Library is also subject to risks of loss from providing health, life, accident, dental, and other medical benefits to employees and their dependents. The Library has enrolled substantially all of its employees in the State's health insurance plans through the County's participation in the plans administered by the South Carolina Budget and Control Board. The State reinsures through commercial companies for these risks. The Library pays contributions to the County Employee Benefits Trust Internal Service Fund, which remits the premiums to the State.

In addition, the Library insures against the risk of job-related injury or illness to its employees through the County's workers' compensation internal service fund. The County is self-insured for the first \$100,000 per claim, with any excess covered by an insurance policy. Claims processing is administered by the South Carolina Counties Workers' Compensation Trust. The Library contributes to the County's internal service fund at a rate of 3.85% of its budgeted payroll for workers' compensation.

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

III. OTHER INFORMATION

A. Risk Management (Continued)

For all of the above risk management programs, the Library has not significantly reduced insurance coverages from the previous year, and settled claims in excess of insurance coverage for the last three years were immaterial. For each of the insurance programs and public entity risk pools in which they participate, the Library has effectively transferred all risks with no liability for unfunded claims.

B. Related Party Transactions

During the year there were several transactions between the Library and Charleston County (primary government). These transactions were as follows:

	Amount
Amounts received from the County by the Library:	
Appropriation (including supplemental appropriation)	\$ 13,520,899
Amounts paid to the County by the Library:	
Janitorial services	\$ 102,831
Carpet cleaning	24,209
Workers' compensation	296,024
OPEB expenditures	355,369
Insurance coverage - building and contents, liability, fidelity bond, theft	89,967
Motor vehicle repairs	20,456
Motor vehicle fuel charges	26,615
Other general services	115,987
Solid Waste User Fee	21,840
Health, life, and dental insurance (Library employees covered through County plan)	864,500
Other minor charges	1,037
	\$ 1,918,835
Other transactions:	
Rent-free use of County-owned Library buildings and County-owned vehicles	\$ - *

* Not determined

C. Employee Retirement System and Plans

South Carolina Retirement System

Plan Description. The Library contributes to the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the State Budget and Control Board. The SCRS provides retirement and disability benefits, life insurance, and survivor benefits to plan members and beneficiaries. Annual cost of living adjustment (COLA) is funded under SCRS, and is granted on an ad hoc basis, subject to approval by the State Budget and Control Board. The Plan's provisions are established under Title 9 of the SC Code of Laws. The South Carolina Retirement System issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for the SCRS. That report is publicly available on their website at www.retirement.sc.gov, or a copy may be obtained by writing to the South Carolina Retirement System, P.O. Box 11960, Columbia, SC 29211-1960.

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

III. OTHER INFORMATION (CONTINUED)

C. Employee Retirement System and Plans (Continued)

Funding Policy. Plan members are required to contribute 6.5% of their annual covered salary, and the Library is required to contribute at an actuarially determined rate. The current rate is 9.385% of annual covered payroll. Additionally, participating employers of the SCRS contribute .15% of payroll to provide a group life insurance benefit for their participants. The Library's contributions to SCRS for the years ended June 30, 2012, 2011, and 2010, were \$679,873, \$653,680, and \$641,886, respectively, equal to the required contributions for each year.

Internal Revenue Code Section 457 Plan

The Library offers its employees a deferred compensation plan, offered through the State of South Carolina, created in accordance with Internal Revenue Code Section 457. The plan, available to all regular full-time and part-time employees, permits participants to defer a portion of their salaries until future years. The deferred compensation is not available to the employee or his beneficiaries until termination, retirement, death, disability, or an approved hardship. All amounts of compensation deferred under the plan are held in trust for the contributing employee and are not subject to claims of the employer's general creditors. The plan is administered by the State of South Carolina.

Employee contributions to the 457 plan for the year were \$13,370.

Internal Revenue Code Section 401(k) Plan

The Library also offers its employees participation in a deferred compensation plan offered through the State of South Carolina, created in accordance with Internal Revenue Code Section 401(k). The 401(k) plan has the same eligibility requirements as the 457 plan, although the withdrawal provisions are more lenient under the 401(k) plan. All amounts of compensation deferred under the plan are held in trust for the contributing employee and are not subject to claims of the employer's general creditors. The funds are administered by the State of South Carolina.

Employee contributions to the 401(k) plan for the year were \$196,765.

D. Other Post-employment Benefits

The County provides post-retirement health, life, and dental care benefits to Library retirees, as per the requirement of a local ordinance, for certain retirees and their dependents. Substantially all employees who retire under the state retirement plans are eligible to continue their coverage with the County paying 50 percent of health insurance premiums and the retiree paying 100 percent of life and dental insurance premiums and the remaining 50 percent of the health insurance premiums. The County's regular insurance providers underwrite the retirees' policies. Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans. This program is administered and funded by Charleston County.

The projected post-employment expense is \$355,369 or 4.65% of budgeted salaries of \$7,639,268 for the fiscal year ended June 30, 2012. This amount will be withheld from the monthly appropriation from the County to the Library.

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

III. OTHER INFORMATION (CONTINUED)

E. Funds Held by Coastal Community Foundation

As of June 30, 2012, the Coastal Community Foundation held \$406,548 in the Charleston County Library Fund. The fund was established in November 1983 for the purpose of providing support for unusual or innovative programs and services at the Library not normally funded by government appropriation. During the year \$10,000 was awarded as grants to the Library. At year-end, \$5,064 is available for grants to the Library.

As of June 30, 2012, the Coastal Community Foundation held \$80,054 in the Roper Foundation Community Wellness Endowment for the Charleston County Library. The endowment was established for the purpose of updating the health education information collection. At year-end, \$2,878 is available for grants to the Library.

These amounts are not reflected in the Library's financial statements until grants are received by the Library from the Foundation.

F. Commitments and Contingent Liabilities

Grants

The Library receives a substantial amount of support from federal, state, and local governments. A significant reduction in the level of this support, if this were to occur, may have an effect on the Library's programs, activities, and collection materials.

The Library must apply for annual renewal of contracts and grants with the South Carolina State Library. Funding is subject to both increases and decreases at the discretion of the State Library, and some agreements also may be terminated by either party contingent upon certain conditions.

Amounts received or receivable from grantor agencies in previous years are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, could become a liability of the general fund. The amount of program expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Library expects such amounts, if any, to be immaterial.

G. Pending GASB Pronouncements

The GASB has issued Statement No. 61, "The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34" for periods beginning after June 15, 2012. The effect of implementation of this statement on the financial statements for the Library's year ending June 30, 2013 has not yet been determined.

The GASB has issued Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" for periods beginning after December 15, 2011. The effect of implementation of this statement on the financial statements for the Library's year ending June 30, 2013 has not yet been determined.

The GASB has issued Statement No. 65, "Items Previously Reported as Assets and Liabilities" for periods beginning after December 15, 2012. The effect of implementation of this statement on the financial statements for the Library's year ending June 30, 2014 has not yet been determined.

The GASB has issued Statement No. 66, "Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62" for periods beginning after December 15, 2012. The effect of implementation of this statement on the financial statements for the Library's year ending June 30, 2014 has not yet been determined.

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

III. OTHER INFORMATION (CONTINUED)

H. Subsequent Events

Management has assessed subsequent events through September 27, 2012, the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
BUDGETARY COMPARISON SCHEDULE –
GOVERNMENTAL FUNDS (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2012

	Original Budget	Final Budget	Actual
REVENUES			
Intergovernmental revenues			
Lottery funds	\$ 43,027	\$ 43,027	\$ 43,047
State aid income	256,669	256,669	256,669
County appropriation	13,322,999	13,492,594	13,520,899
Miscellaneous federal pass-thru grants	-	-	21,351
Fines	569,000	569,000	397,246
Miscellaneous income			
Copy machine charges	83,300	83,300	82,698
Interest	1,000	1,000	31
Restricted donations	-	-	1,106
Other	25,000	25,000	29,350
TOTAL REVENUES	14,300,995	14,470,590	14,352,397
EXPENDITURES			
Personnel costs			
Salaries	7,467,913	7,592,668	7,348,546
Temporary wages	46,600	46,600	50,048
Payroll taxes and fringe benefits	3,045,323	3,090,163	2,781,424
Library materials	2,212,974	2,212,974	2,022,375
Electricity and gas	701,790	701,790	685,043
Access to networks	518,900	518,900	404,757
Janitorial service	265,980	265,980	251,727
Copier leases	194,280	194,280	206,875
Material recovery services	75,000	75,000	54,738
Other general services	115,987	115,987	115,987
Security service	104,000	104,000	99,791
County insurance/risk management	89,967	89,967	89,967
Telephone	78,940	78,940	79,471
Water and sewer	79,770	79,770	82,392
Technical supplies	74,250	74,250	80,485
Building repairs and maintenance	61,500	61,500	47,905
Professional services	60,900	60,900	55,640
Postage	65,000	65,000	56,113
Automotive expenses	67,393	67,393	49,024
Equipment repairs and maintenance	40,439	40,439	43,411
Office supplies	41,600	41,600	43,604
Minor equipment supplies	16,950	16,950	18,584

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
BUDGETARY COMPARISON SCHEDULE –
GOVERNMENTAL FUNDS (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2012

	Original Budget	Final Budget	Actual
EXPENDITURES (CONTINUED)			
Library supplies	\$ 24,600	\$ 24,600	\$ 19,071
Printing	23,400	23,400	21,155
Data processing supplies	21,000	21,000	24,704
Audit fees	15,500	15,500	15,450
Copier supplies	11,200	11,200	11,226
Training and travel	6,000	6,000	5,317
Advertising	3,000	3,000	3,190
Dues	5,000	5,000	3,200
Rent on buildings	2,400	2,400	2,400
Bank fees	5,000	5,000	3,565
Messenger service	1,037	1,037	1,037
Microform supplies	1,000	1,000	1,577
Inter-library loans	1,000	1,000	447
Board Contingency	5,000	5,000	264
Donor restricted expenditures			
City Spoleto	-	-	900
Big Read Project	-	-	206
Federal pass-thru grant expenditures			
LSTA Early Literacy (Babygarten)	-	-	14,184
LSTA Conference Attendance	-	-	93
LSTA Planning Grant	-	-	2,500
LSTA Summer Reading Program	-	-	1,000
STA Storytelling for Literacy	-	-	481
THC LTAL: Making Sense of Civil War	-	-	300
THC LTAL: Stiff Upper Lips	-	-	800
THC LTAL: One Book Charleston	-	-	1,993
TOTAL EXPENDITURES	<u>15,550,593</u>	<u>15,720,188</u>	<u>14,802,967</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (1,249,598)</u>	<u>\$ (1,249,598)</u>	(450,570)
FUND BALANCE			
Beginning of year			<u>2,346,958</u>
End of year			<u>\$ 1,896,388</u>

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
NOTES TO BUDGETARY COMPARISON SCHEDULE –
GOVERNMENTAL FUNDS (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2012

Annually, at a time designated by the Charleston County Council, the Library prepares a proposed budget adequate to fund the operation and programs of the library system, detailing all funds which the Board anticipates will be available for the operation of the library system. Based upon this proposed budget, the funding level for the annual "county appropriation" is approved by County Council. The annual appropriation from Charleston County is only subject to change by the County Administrator or County Council. All appropriations lapse at year-end.

The legal level of budgetary control is determined by the Board at the entity level. Expenditures by major category, i.e. personnel, purchased services and materials, are further defined in the budget document. Management of the Library is authorized to make transfers between major expenditure categories. The budget ordinance must be amended by the Board to affect changes in total appropriations.

Supplemental appropriations, which were funded by a budgeted increase in the County appropriation, amounted to \$169,595.

The Budgetary Comparison Schedule is presented on a basis other than GAAP because management elects to exclude restricted gifts and related expenditures due to their unpredictable nature.

A reconciliation of the actual revenues and expenditures as presented in the Budgetary Comparison Schedule to the revenues and expenditures presented in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds, is as follows:

	<u>Revenue</u>	<u>Expenditures</u>	<u>Ending Fund Balance</u>
Budgeted funds			
General Fund	\$ 14,030,224	\$ 14,480,794	\$ 1,896,388
Special Revenue Fund	451,069	442,810	38,031
	<u>14,481,293</u>	<u>14,923,604</u>	<u>1,934,419</u>
Total per Statement of Revenues, Expenditures, and Changes in Fund Balances	14,481,293	14,923,604	1,934,419
Less unbudgeted activities excluded from Budgetary Comparison Schedule			
Special Revenue Funds	128,896	120,637	38,031
	<u>128,896</u>	<u>120,637</u>	<u>38,031</u>
Actual totals presented in Budgetary Comparison Schedule	<u>\$ 14,352,397</u>	<u>\$ 14,802,967</u>	<u>\$ 1,896,388</u>

GOVERNMENT AUDITING STANDARDS REPORT

**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**

Board of Trustees
**Charleston County Library,
a Component Unit of Charleston County**
Charleston, South Carolina

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Charleston County Library, a Component Unit of Charleston County, South Carolina**, (the Library) as of and for the year ended June 30, 2012, which collectively comprise the Library's basic financial statements and have issued our report thereon dated September 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Library is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency in internal control over financial reporting: 2012-1. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Members

SC Association of Certified Public Accountants
NC Association of Certified Public Accountants

Members

Division for CPA Firms, AICPA

31

An Independently Owned Member
McGLADREY ALLIANCE

 **McGladrey**

PO Box 1588 (29484)
100 South Main Street, Suite G (29483)
Summerville, South Carolina
843-873-4400, Fax 843-873-7227
www.websterrogers.com

Board of Trustees
Charleston County Library,
a Component Unit of Charleston County
Charleston, South Carolina
Page Two

The Library's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Library's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Charleston County officials, others within the entity, and those so noted by Charleston County Library, and is not intended to be and should not be used by anyone other than these specified parties.

Walter Rogus LLP

Summerville, South Carolina
September 27, 2012

CHARLESTON COUNTY LIBRARY
(A Component Unit of Charleston County, South Carolina)
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

<u>Ref #</u>	<u>Department Program/Grant</u>	<u>Finding/Noncompliance</u>
2012-1	Finance	<p><u>Criteria:</u> As noted in the prior year, segregation of duties, especially as it pertains to the recording and reconciling of transactions, is necessary to ensure proper safeguarding of assets of the Library.</p> <p><u>Condition:</u> Although it is difficult to maintain proper segregation of duties in a small office, there are several duties that should be performed by different personnel to ensure proper recording and reconciling of transactions. The duties of reconciling bank accounts, signing checks, making changes to approved invoice and payroll journals, assignment of user rights and posting activity to the ledgers are not sufficiently segregated to provide proper internal control.</p> <p><u>Effect:</u> The Library has insufficient internal controls to ensure the proper safeguarding of assets.</p> <p><u>Cause:</u> The Library has a limited number of personnel to whom accounting tasks can be assigned.</p> <p><u>Recommendation:</u> Management should review these duties and the responsible person assigned to them in order to make improvements to the extent possible to ensure that proper controls are in place.</p> <p><u>Management's Response:</u> Management will continue to review finance department internal controls for any cost-effective improvements necessary to ensure the proper safeguarding of assets. However, management believes that current controls are sufficient to ensure the proper safeguarding of assets within acceptable levels of risk considering the resources available.</p>