
ENOCH PRATT FREE LIBRARY

A COMPONENT UNIT OF THE
CITY OF BALTIMORE, MARYLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

JUNE 30, 2012



ENOCH PRATT *free* LIBRARY

Prepared
by:

Gordon E. Krabbe
Director, Administrative Services

Marilynn J. Glaser, CPA

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FOR THE FISCAL YEAR ENDED
JUNE 30, 2012

TABLE OF CONTENTS

	<u>Page</u>
Introductory Section	
Letter of Transmittal	i
Organization Chart	iv
List of Principal Officials	v
Branch Service Areas	vi
 Financial Section	
Independent Auditor's Report	1
Management's Discussion and Analysis	3
 Basic Financial Statements:	
<i>Entity-wide Financial Statements:</i>	
Statement of Net Assets	11
Statement of Activities	12
 <i>Governmental Fund Financial Statements:</i>	
Balance Sheet – Governmental Funds	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual - General Fund	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual - Special Revenue – Other Fund	17
 Notes to the Basic Financial Statements	 18
 Statistical Section	
Governmental Revenues by Source and Expenditures by Function – Last Ten Fiscal Years	34
Miscellaneous Statistics – Last Ten Fiscal Years	35

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INTRODUCTORY SECTION

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CITY OF BALTIMORE
STEPHANIE RAWLINS-BLAKE, Mayor



ENOCH PRATT FREE LIBRARY

400 Cathedral Street
Baltimore, Maryland 21201-4484

March 25, 2013

Enoch Pratt Free Library Board of Trustees

Enclosed is the Enoch Pratt Free Library's (the Library) Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2012. The CAFR was prepared by the Library's Business Office, which is responsible for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures. We believe that the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and changes in financial position of the Library; and, that all disclosures necessary to enable the reader to gain the maximum understanding of the Library's financial affairs have been provided.

The CAFR is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the Library's organization chart, a list of its principal officials and a Neighborhood Service Areas map. The financial section includes the Independent Auditor's Report, Management's Discussion and Analysis, and basic financial statements with related notes. The statistical section provides various demographic and library usage tables generally presented on a multi-year basis.

Management has provided a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Library's MD&A can be found immediately following the report of the independent auditor in the Financial Section of the CAFR.

Reporting Entity

The Library was created by the Maryland General Assembly through Chapter 181 of the Acts of 1882. The legislation enabled the Mayor and City Council of Baltimore to accept a donation from Enoch Pratt for the establishment of and perpetual endowment of a Free Public Library to be known as "The Enoch Pratt Free Library of Baltimore City." It also provided for the appointment and incorporation of Trustees for the management of the Library. The Library's bylaws call for no fewer than nine and no more than fifty Trustees who must be residents of Baltimore City. Trustees serve for life or until resignation. The Trustees appoint the Chief Executive Officer of the Library who is responsible for the administration of the Library. Shortly after the Library was created, the system was composed of a Central Library and four branches. Today, the Library is composed of the Central Library and 21 branches. It also provides outreach services through mobile services and deposit collections.

In addition to its role as the public library for Baltimore City residents, the Library was designated by the Maryland General Assembly in 1971 as the State Library Resource Center (SLRC). The SLRC is responsible for providing and expanding access to specialized library materials and services that are necessary for coordinated, efficient, and economical library services in the State of Maryland.

Economic Conditions and Outlook

Funding from Baltimore City's General Fund accounted for 41.8% of the Library's total revenue. The City's difficult revenue situation required the continuation of a hiring and non-essential spending freeze which is the primary reason for a reversion of \$1.3 million. The State of Maryland provided nearly 48.5% of the Library's total revenue in four separate categories. First, it provided \$6.3 million in Library per capita aid, which is provided to all jurisdictions in the State, based on a formula that takes into account population and wealth of the jurisdiction. Second, it provided approximately \$9.5 million for the Library's role as the SLRC based on a formula that provides \$1.67 for each of Maryland's citizens. Third, the Library operates the Baltimore City Detention Center Library under a contractual agreement. Finally, the State provided approximately \$1.8 million in direct support of retirement costs of certain library employees who are members of the State's Pension and Retirement Systems. Overall State revenues were relatively even compared to last fiscal year.

Gifts, Contributions and Bequests accounted for approximately 5.9% of the Library's total revenue. Gains on investments and all other revenue (including interest from Enoch Pratt's initial gift to the City) accounted for the remaining 3.8% of total revenue.

The overall demographics of Baltimore City have changed very little over the last several years, although a poor economy made the fiscal year 2013 budget development process a challenge. After the fiscal year 2012 budget was developed, the City experienced an improvement in its fiscal situation and the hiring/spending freeze was discontinued which should allow for stabilization of services. SLRC per capita funding was targeted to increase back to the \$1.85 level in fiscal year 2013 where it had been prior to the 10% reduction in Fiscal Year 2010, however with a continued sluggish economy in the State, it will more than likely remain at the current level at best. Private funding has assumed greater importance during the Local and State Funding ups and downs, and this is expected to continue in the future. As this is written, the Local and State funding outlook for fiscal year 2014 is of concern, making fundraising an even more urgent priority.

Major Activities

One of the major goals of the Library is to make facility improvements that result in welcoming and highly functional libraries. We spent a significant amount of effort coordinating the installation of wireless internet service in a number of branches and completed the renovation of the Reisterstown Road Library which opened on August 9, 2011. Demolition work was completed at the Canton Library and construction is expected to get underway shortly. Planning is underway for the renovation of the Waverly branch which should result in a start of construction in early 2013. We completed Year two of our new Strategic Plan which will govern our activities for the next several years.

Statistics

The following fiscal year 2012 statistics are provided for information on library usage:

Circulation - total system circulation was 1,253,984.

In-Library Usage was estimated to be an additional 454,486.

New and renewal registration was 58,513.

Reference questions handled and readers assisted totaled 1,929,131.

Approximately 129,424 customers attended library programs and 33,078 persons took advantage of our meeting rooms for community and other events.

Approximately 2.0 million persons visited the Library in fiscal year 2012.

The Library's Web site experienced 3.3 million user sessions with nearly 14.0 million page views.

The Library's public access catalog (PAC) experienced nearly 8.8 million page views.

SAILOR, the statewide library network aimed at providing free access to electronic information to all Marylanders, received nearly 533,000 page views.

Acknowledgements

The preparation of this report could not be accomplished without the dedicated efforts of the Library's accounting staff and others in the Business Office. We thank them and all others who contributed to its preparation.

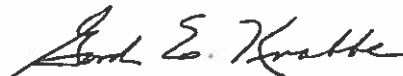
This report is being forwarded to the Baltimore City Board of Estimates who will have an opportunity to review the report. Hopefully the Board of Estimates and members of the public will find this report informative and helpful.

Finally, we would like to thank the Board of Trustees for their continued interest and support in planning and conducting the financial operations of the Library in a responsible and progressive manner.

Respectively submitted,



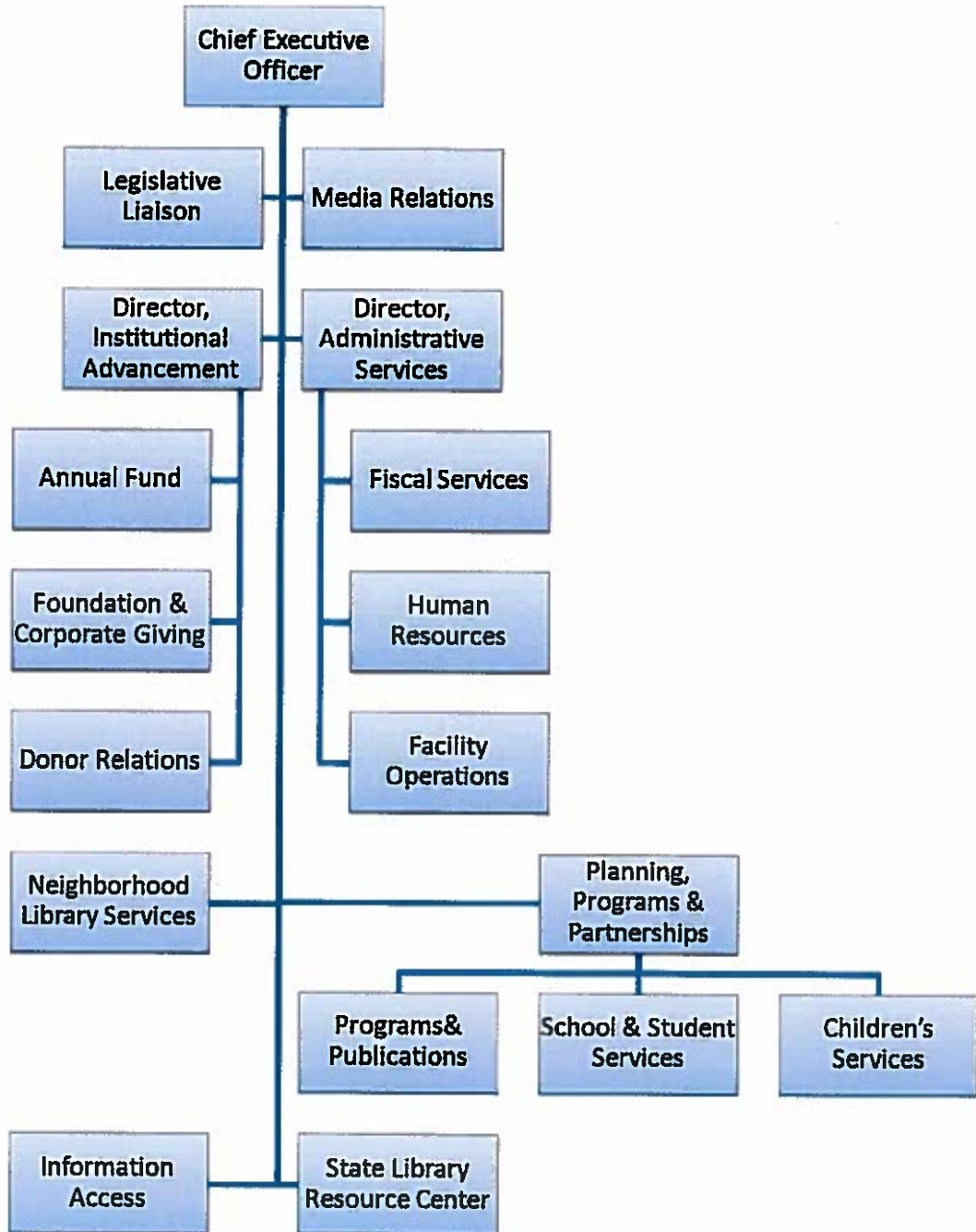
Carla Hayden
Chief Executive Officer



Gordon E. Krabbe
Director, Administrative Services

Enoch Pratt Free Library

Organization Chart



**List of Principal Officials
As of June 30, 2012**

Board of Trustees (T)/Directors (D)

Chair.....	Vernon A. Reid (T/D)
Immediate Past Chair	Sandra P. Gohn (T/D)
Vice Chair.....	Stephanie M. Beran (T/D)
Vice Chair.....	Mary H. DeKuyper (T/D)
Vice Chair.....	Nancy Dorman (T/D)
Treasurer.....	Mark Kaufman (T/D)
Secretary.....	Edward N. Kane Jr. (D)
Trustee	Virginia K. Adams
Director.....	Kenneth S. Anneckstein
Director.....	Barbara Bozzuto
Trustee	Edward J. Brody
Trustee	Mark Cheshire
Director.....	Edward S. Delaplaine III
Trustee/Director	Christine M. Espenshade
Director.....	Susan K. Gauvey
Director.....	Nancy Hackerman
Trustee	Robert S. Hillman
Trustee/Director	Barbara A. Hoffman
Director.....	Sherrilyn A. Ifill
Trustee	Antonio Klima Keane
Trustee/Director	Alexander W. Koff
Trustee/Director	Patricia J. Lasher
Trustee/Director	James Dabney Miller
Trustee/Director	Elizabeth K. Moser
Trustee	James Piper III
Trustee/Director	Kathleen Rawson Powell
Trustee	George L. Russell III
Trustee/Director	Paul S. Sarbanes
Trustee/Director	Jeffrey H. Scherr
Director.....	Graylin E. Smith
Director.....	Marc Steiner
Trustee	Garland Williamson

Administrative Staff

Carla Hayden	Chief Executive Officer
Gordon Krabbe.....	Director, Administrative Services
Jamie Caplis.....	Director of Institutional Advancement
John Kinsella.....	Chief of Human Resources
John Richardson	Manager, Facility Operations
Ellen Riordan.....	Chief, Planning, Programs & Partnerships
Judith Cooper.....	Chief of Programs, Exhibits, Publicity
Roswell Encina.....	Media Relations Coordinator
Deborah Taylor	Coordinator, School and Student Services
Patricia Costello	Chief of Neighborhood Services
Wesley Wilson.....	Chief of State Library Resource Center
Ann Smith.....	Chief of Information Access



ENOCH PRATT *free* LIBRARY

your journey starts here



Branch Service Areas

Baltimore, Maryland

www.prattlibrary.org

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FINANCIAL SECTION

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CITY OF BALTIMORE
STEPHANIE RAWLINGS-BLAKE, Mayor



DEPARTMENT OF AUDITS
ROBERT L. McCARTY, JR., CPA
City Auditor
100 N. Holliday Street
Room 321, City Hall
Baltimore, Maryland 21202
Telephone: 410-396-4783
Telefax: 410-545-3961

INDEPENDENT AUDITOR'S REPORT

March 25, 2013

Honorable Joan M. Pratt, Comptroller
And Other Members of the
Board of Estimates of the
City of Baltimore

Board of Trustees of the
Enoch Pratt Free Library

We have audited the accompanying financial statements of the governmental activities, each major governmental fund, and the aggregate remaining fund information of the Enoch Pratt Free Library, a component unit of the City of Baltimore, Maryland, as of and for the year ended June 30, 2012, which collectively comprise the Enoch Pratt Free Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Enoch Pratt Free 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 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. We were not engaged to perform an audit of the Enoch Pratt Free Library's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Enoch Pratt Free Library's internal control over financial reporting. Accordingly, we express no such opinion. 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 opinions.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major governmental fund, and the aggregate remaining fund information of the Enoch Pratt Free Library, as of June 30, 2012, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund, Special Revenue - Other Fund and Permanent Fund for the year then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report, dated March 25, 2013 on our consideration of the Enoch Pratt Free Library's internal control over financial reporting and on 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 considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Enoch Pratt Free Library's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Enoch Pratt Free Library. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly we express no opinion on them.

Respectfully submitted,



Robert L. McCarty, Jr., CPA
City Auditor

ENOCH PRATT FREE LIBRARY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

As management of the Enoch Pratt Free Library (the Library), we offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Library for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with the financial statements, which can be found on pages 11 through 33 of this report.

Financial Highlights

- The assets of the Library exceeded its liabilities at the close of fiscal year 2012 by \$99,159,900 (*net assets*). Of this amount, \$14,055,000 (*expendable net assets*) may be used to meet the Library's ongoing obligations to citizens and creditors.
- The Library's total net assets decreased by \$2,777,000. This decrease is primarily attributable to a decrease in net investment gains and losses as compared to last year.
- As of the close of fiscal year 2012, the Library's governmental funds reported combined ending fund balances of \$27,925,800. Approximately 62.2 percent of this total amount, \$17,366,600, is available for spending (*restricted, assigned and unassigned fund balances*).
- At the end of fiscal year 2012, the unassigned fund balance for the general fund was \$1,566,700.
- The Library's liability for compensated absences increased by \$201,700, or 4.9% during the current fiscal year. The key factors in this increase were improved recruitment and retention of employees.

Overview of the Financial Statements

The following discussion and analysis are intended to serve as an introduction to the Library's basic financial statements. The Library's basic financial statements comprise three components: 1) entity-wide financial statements, 2) governmental fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Entity-wide financial statements. The *entity-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 *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 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 fiscal year 2012. 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 only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the entity-wide financial statements report functions of the Library that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The Library has no functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*).

The Library is incorporated in the basic financial statements of the City of Baltimore as a blended component unit. The Library's entity-wide financial statements include only the financial position and results of operation of the Library itself and are not intended to present fairly the financial position of the City of Baltimore taken as a whole. The Library has no component units.

The entity-wide financial statements can be found on pages 11 and 12 of this report.

Governmental 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. 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 entity-wide financial statements. However, unlike the entity-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *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.

Because the focus of governmental funds is narrower than that of the entity-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the entity-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*.

The Library maintains four individual governmental funds (general, special revenue - grants, special revenue - other, and permanent). Information on all four funds is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances.

The basic governmental fund financial statements can be found on pages 13 to 15 of this report.

Proprietary funds. The Library maintains no proprietary funds.

Fiduciary funds. The Library maintains no fiduciary funds.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the entity-wide and fund financial statements. The notes to the basic financial statements can be found on pages 18 through 33 of this report.

Other information. The Library adopts annual appropriated budgets for its General Fund, Special Revenue - Other Fund and Permanent Fund. Budgetary comparison statements have been provided for the General Fund and the Special Revenue - Other Fund to demonstrate compliance with budgets and can be found on pages 16 and 17 of this report.

Entity-wide Financial Analysis

Analysis of 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 \$99,159,900 at the close of fiscal year 2012

By far the largest portion of the Library's net assets (76.2 percent) reflects its investment in capital assets (e.g., books, land, buildings, equipment, fine arts, and special collections). The Library uses these capital assets to provide services to citizens and users; consequently, these assets are *not* available for future spending.

An additional portion of the Library's net assets (20.6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *expendable unrestricted net assets* (\$3,221,300) may be used to meet the Library's ongoing obligations to citizens, users, and creditors.

Enoch Pratt Free Library
Net Assets
(Rounded to Nearest Hundred Dollars)

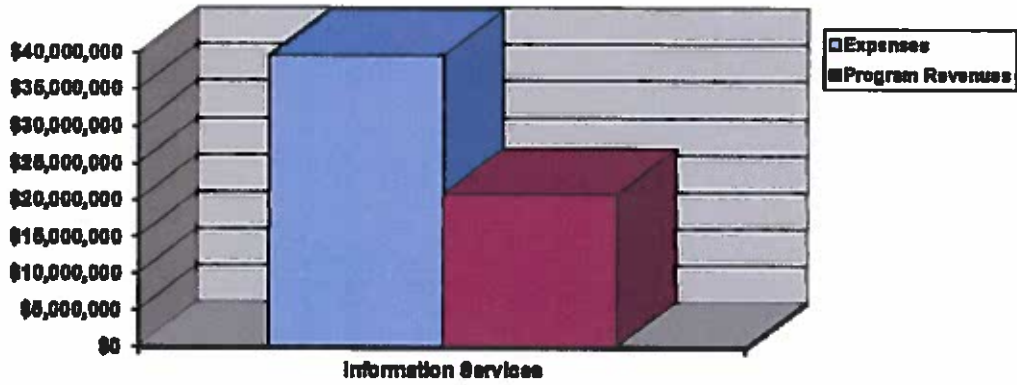
	Governmental Activities	
	2012	2011
Assets:		
Current and other assets.....	\$ 34,519,000	\$ 31,524,400
Capital assets.....	75,588,100	77,928,000
Total assets.....	110,107,100	109,452,400
Liabilities:		
Liability for compensated absences.....	4,324,600	4,122,900
Other liabilities.....	6,622,600	3,392,600
Total liabilities.....	10,947,200	7,515,500
Net assets:		
Invested in capital assets.....	75,558,700	77,928,000
Restricted.....	16,061,300	16,182,200
Unrestricted.....	7,539,900	7,826,700
Total net assets.....	\$ 99,159,900	\$ 101,936,900

- **Analysis of changes in net assets.** The Library's net assets overall decreased by \$2,777,000 during fiscal year 2012. This is primarily attributable to a decrease in net investment gains and losses as compared to last year.

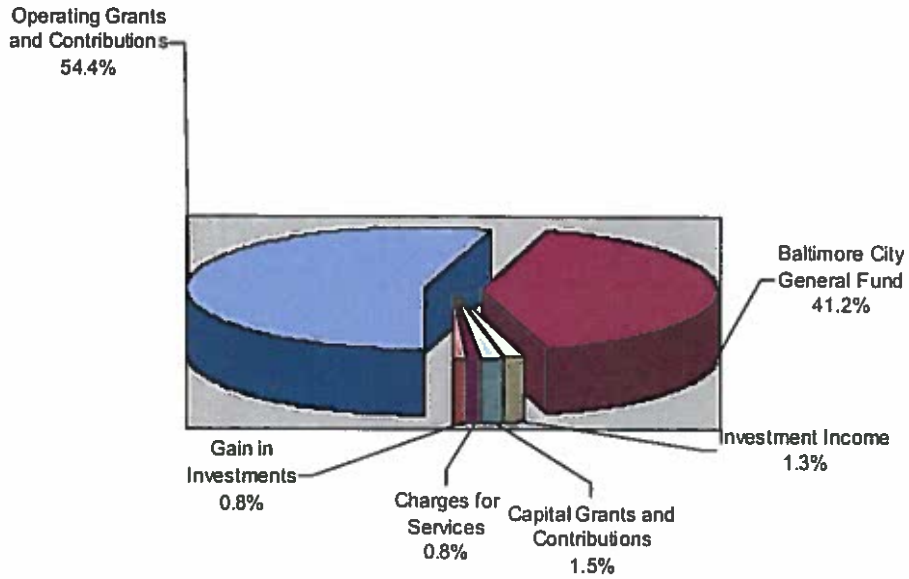
Enoch Pratt Free Library
Changes in Net Assets
(Rounded to Nearest Hundred Dollars)

Revenues	Governmental Activities	
	<u>2012</u>	<u>2011</u>
Program revenues:		
Charges for services	\$ 279,800	\$ 323,000
Operating grants and contributions	20,042,700	20,377,700
Capital grants and contributions	546,700	399,800
General revenues:		
Baltimore City general fund	15,141,600	15,264,600
Investment income	484,200	569,400
Net investment gains and losses	287,100	4,473,200
Total revenues	36,782,100	41,407,700
Expenses		
Expenses	39,559,100	40,246,300
Total expenses	39,559,100	40,246,300
Change in net assets	(2,777,000)	1,161,400
Net assets - beginning of year	101,936,900	100,775,500
Net assets - end of year	\$ 99,159,900	\$ 101,936,900

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



Governmental activities. Key factors for the overall decrease of \$4.2 million in net assets of the Library's governmental activities are as follows:

- Investment gains \$287,100, a decrease of \$4,186,100 from last year's gain of \$4,473,200, and investment income decreased by \$85,200 in fiscal year 2012 due to changes in market conditions.
- Support from the Baltimore City General Fund decreased by approximately \$123,000 during fiscal year 2012.
- Grant revenue from State, Federal and Other sources decreased by approximately \$419,000 or almost 2.3% as State/Federal opportunities decreased due to the difficult economy.
- Gifts, contributions and bequests and "e-Rate" revenue increased by approximately \$84,100 or just under 4.1 percent.
- Library expenses decreased by \$919,000.

Financial Analysis of the Government's Funds

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

Governmental funds. 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, *spendable fund balances* may serve as a useful measure of a Library's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the Library include the General Fund, Special Revenue Funds, and the Permanent Fund.

As of the end of fiscal year 2012, the Library's governmental funds reported combined ending fund balances of \$27,925,800 a decrease of \$206,000 in comparison with the prior fiscal year. Of this total, \$17,366,600 constitutes spendable fund balances. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate existing contracts and purchase orders (\$1,013,000) or is nonspendable as required by endowment donors (\$9,546,200).

Revenues for governmental functions overall totaled \$36,235,500 in the fiscal year ended June 30, 2012 which represents a decrease of about 11.6 percent from the fiscal year ended June 30, 2011. Expenditures for governmental functions, totaling \$36,441,500, decreased by about 2.5 percent from the fiscal year ended June 30, 2011. In the fiscal year ended June 30, 2012, expenditures exceeded revenues for governmental functions by approximately \$206,000 or about 0.6 percent.

The General Fund is the chief operating fund of the Library. At the end of fiscal year 2012, the unassigned fund balance of the General Fund was \$1,566,700, while the total fund balance was \$2,579,700. As a measure of the General Fund's liquidity, it may be useful to compare both the unassigned fund balance and total fund balance to total fund expenditures. The unassigned fund balance represents about 6.7 percent of total General Fund expenditures of \$23,416,300, while total fund balance represents over 11.0 percent of that same amount.

The fund balance in the Library's General Fund increased by \$168,900 during fiscal year 2012 as a result of a decrease in expenditures which was offset by a decrease in revenue.

General Fund Budgetary Highlights

During fiscal year 2012, the Library underspent part of the budgeted appropriation, therefore expenditures were less than final budgetary estimates, allowed \$1,313,800 to be returned to City surplus.

Capital Asset Administration

Capital assets. The Library's investment in capital assets for its governmental activities as of June 30, 2012, amounts to \$75,558,700 (net of accumulated depreciation and the related accounts payable). This investment in capital assets includes library books, land, buildings and improvements, equipment, construction in process, fine arts and special collections. The total decrease in the Library's investment in capital assets for the current fiscal year was 3.0 percent.

Enoch Pratt Free Library Changes in Capital Assets - Net of Depreciation (Rounded to Nearest Hundred Dollars)

	Governmental Activities	
	2012	2011
Library books and materials	\$ 25,236,000	\$ 26,367,400
Land	1,676,400	1,676,400
Buildings and improvements	45,592,900	46,997,200
Equipment	567,200	947,400
Construction in progress	1,134,400	558,400
Fine arts	1,061,800	1,061,800
Special collections	319,400	319,400
Total	\$ 75,588,100	\$ 77,928,000

Major capital asset events during fiscal year 2012 included the following:

- The acquisition of additional books and materials at a cost of \$3.6 million offset by depreciation expense of \$4.7 million.
- Building and Improvements decreased as a result of depreciation of assets offset by an increase in construction in progress.

See Note 5 to the Basic Financial Statements for additional information on the Library's capital assets.

Economic Factors and Next Year's Budget

The market value of the Library's investments had a gain of nearly \$287,100 due to an increase in the market. Private donations and governmental revenues decreased by \$457,900 when compared to fiscal year 2011. City General Funds decreased by \$123,000 compounded by decreases in Federal/State Funding of about \$482,600. We also experienced an increase in private grants, "e-rate" funds and donations of \$147,700.

The poor economy has negatively impacted library investments and operating budget support over the last several years and we have been advised to expect future budget reductions. The Library is no longer operating under a City General Fund hiring and non-essential budget freeze, which has allowed some stabilization in hours and services. Next year's State funding of the State Library Resource Center is expected to remain relatively flat which will allow us to avoid reductions in State services. The Library just completed year two of its three year Strategic Plan that will take into consideration the new fiscal realities as we continue our efforts at providing the best possible service to our City and State customers.

Requests for Information

This financial report is designed to provide a general overview of the Library's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Gordon E. Krabbe
Director, Administrative Services
400 Cathedral Street
Baltimore, Maryland 21201

**ENOCH PRATT FREE LIBRARY
STATEMENT OF NET ASSETS
JUNE 30, 2012
(Rounded to Nearest Hundred Dollars)**

	Governmental Activities
Assets:	
Cash.....	\$ 1,140,100
Equity in City's Pooled Cash and Cash Equivalents.....	4,282,300
Investments (At Market).....	28,601,200
Accounts Receivable - Due from Grantors.....	279,900
Accrued Interest and Dividends Receivable.....	105,500
Capital Assets (Net of Accumulated Depreciation):	
Buildings and Improvements.....	45,592,900
Equipment.....	567,200
Library Books and Materials.....	25,236,000
Capital Assets (Nondepreciable):	
Land.....	1,676,400
Fine Arts.....	1,061,800
Special Collections.....	319,400
Construction in Progress.....	1,134,400
Other Assets.....	110,000
Total Assets.....	<u>110,107,100</u>
Liabilities:	
Accounts Payable.....	837,600
Accrued Liabilities.....	1,453,200
Advances Payable - City's General Fund.....	302,500
Due to Baltimore City.....	3,293,000
Deferred Revenue - Advances from Grantors.....	732,000
Other.....	4,300
Liability for Compensated Absences:	
Due within One Year.....	2,990,100
Due in More than One Year.....	<u>1,334,500</u>
Total Liabilities.....	<u>10,947,200</u>
Net Assets:	
Invested in Capital Assets.....	75,558,700
Restricted:	
Nonexpendable.....	5,227,600
Expendable	10,833,700
Unrestricted:	
Nonexpendable.....	4,318,600
Expendable	<u>3,221,300</u>
Total Net Assets.....	<u>\$ 99,159,900</u>

The notes to the basic financial statements are an integral part of this statement.

**ENOCH PRATT FREE LIBRARY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDING JUNE 30, 2012
(Rounded to the Nearest Hundred Dollars)**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Net Assets</u>
					<u>Governmental</u>
					<u>Activities</u>
Governmental Activities:					
Information Services.....	\$ 39,559,100	\$ 279,800	\$20,041,700	\$ 546,700	\$ (18,690,900)
Total Governmental Activities.....	\$ 39,559,100	\$ 279,800	\$ 20,041,700	\$ 546,700	(18,690,900)
General Revenues:					
Baltimore City General Fund.....					15,141,600
Contributions Not Available for Current Expenses.....					1,000
Investment Income.....					484,200
Net Investment Gain.....					287,100
Total General Revenues.....					15,913,900
Change in Net Assets.....					(2,777,000)
Net Assets - Beginning.....					101,936,900
Net Assets - Ending.....					\$ 99,159,900

The notes to the basic financial statements are an integral part of this statement.

**ENOCH PRATT FREE LIBRARY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012
(Rounded to Nearest Hundred Dollars)**

	<u>General Fund</u>	<u>Special Revenue - Grants Fund</u>	<u>Special Revenue - Other Fund</u>	<u>Permanent Fund</u>	<u>Total Governmental Funds</u>
Assets:					
Cash.....	\$ 227,300	\$ 816,600		\$ 96,200	\$ 1,140,100
Equity in City's Pooled Cash and Cash Equivalents.....	4,282,300				4,282,300
Investments (At Market).....		263,000	\$18,285,200	10,053,000	28,601,200
Accounts Receivable - Due from Grantors.....		279,900			279,900
Accrued Interest and Dividends Receivable.....			68,500	37,000	105,500
Due from Other Funds.....		3,065,500			3,065,500
Other Assets.....	10,100		99,900		110,000
Total Assets.....	<u>4,519,700</u>	<u>4,425,000</u>	<u>18,453,600</u>	<u>10,186,200</u>	<u>37,584,500</u>
Liabilities and Fund Balances:					
Current Liabilities:					
Accounts Payable.....	334,400	185,300	281,400	7,100	808,200
Accrued Liabilities.....	1,238,000	215,200			1,453,200
Advances Payable - City's General Fund.....	302,500				302,500
Due to Baltimore City.....	500	3,292,500			3,293,000
Due to Other Funds.....	64,600		3,000,900		3,065,500
Other.....			4,300		4,300
Deferred Revenue - Advances from Grantors.....		732,000			732,000
Total Current Liabilities.....	<u>1,940,000</u>	<u>4,425,000</u>	<u>3,286,600</u>	<u>7,100</u>	<u>9,658,700</u>
Fund Balances					
Nonspendable.....				9,546,200	9,546,200
Restricted for specific purposes.....			10,541,400	292,300	10,833,700
Committed.....	1,013,000				1,013,000
Assigned.....			4,625,600	340,600	4,966,200
Unassigned.....	1,566,700				1,566,700
Total Fund Balances.....	<u>2,579,700</u>		<u>15,167,000</u>	<u>10,179,100</u>	<u>27,925,800</u>
Total Liabilities and Fund Balances.....	<u>\$ 4,519,700</u>	<u>\$ 4,425,000</u>	<u>\$ 18,453,600</u>	<u>\$ 10,186,200</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	75,588,100
The Accounts Payable Liability associated with Capital Assets are also not reported in the funds	(29,400)
The Liability for Compensated Absences does not require the use of current financial resources and, therefore, is not reported in the funds.....	(4,324,600)
Net assets of governmental activities.....	<u>\$ 99,159,900</u>

The notes to the basic financial statements are an integral part of this statement.

ENOCH PRATT FREE LIBRARY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012
(Rounded to Nearest Hundred Dollars)

	<u>General Fund</u>	<u>Special Revenue - Grants Fund</u>	<u>Special Revenue - Other Fund</u>	<u>Permanent Fund</u>	<u>Total Governmental Funds</u>
Revenues:					
Government and Private Support:					
Baltimore City - General Fund.....	\$ 15,141,600				\$ 15,141,600
Federal Grants.....		\$ 194,700			194,700
State Grants.....	6,346,300	9,423,100			15,769,400
Other Grants.....		139,400			139,400
Fringe Benefits Paid Directly By the State...	1,792,500				1,792,500
Gifts, Contributions and Bequests.....			\$2,145,800	\$ 1,000	2,146,800
Total Government and Private Support	<u>23,280,400</u>	<u>9,757,200</u>	<u>2,145,800</u>	<u>1,000</u>	<u>35,184,400</u>
Other Revenues:					
Fines, Fees and Other.....	279,800				279,800
Investment Income.....			299,900	159,300	459,200
Gain on Investments.....			186,700	100,400	287,100
Interest from Enoch Pratt Endowment	25,000				25,000
Total Other Revenues.....	<u>304,800</u>		<u>486,600</u>	<u>259,700</u>	<u>1,051,100</u>
Total Revenues.....	<u>23,585,200</u>	<u>9,757,200</u>	<u>2,632,400</u>	<u>260,700</u>	<u>36,235,500</u>
Expenditures:					
Information Services.....	23,416,300	9,757,200	3,216,000	52,000	36,441,500
Total Expenditures.....	<u>23,416,300</u>	<u>9,757,200</u>	<u>3,216,000</u>	<u>52,000</u>	<u>36,441,500</u>
Excess of Revenues over Expenditures - Net Change in Fund Balances.....	168,900		(583,600)	208,700	(206,000)
Fund Balances - Beginning of Year.....	<u>2,410,800</u>		<u>15,750,600</u>	<u>9,970,400</u>	<u>28,131,800</u>
Fund Balances - End of Year.....	<u>\$ 2,579,700</u>		<u>\$ 15,167,000</u>	<u>\$ 10,179,100</u>	<u>\$ 27,925,800</u>

The notes to the basic financial statements are an integral part of this statement.

**ENOCH PRATT FREE LIBRARY
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012
(Rounded to Nearest Hundred Dollars)**

Amounts reported for governmental activities in the statement of activities (page 12) are different because:

Net change in fund balances - total governmental funds (page 14)	\$ (206,000)
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 capital outlays exceeded depreciation in the current period.	(2,369,300)
The Liability for Compensated Absences does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds. This is the amount by which the liability changed in the current period.	<u>(201,700)</u>
Change in net assets of governmental activities (page 12)	<u><u>\$ (2,777,000)</u></u>

The notes to the basic financial statements are an integral part of this statement.

**ENOCH PRATT FREE LIBRARY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012
(Rounded to Nearest Hundred Dollars)**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Government Support:				
Baltimore City - General Fund.....	\$16,455,400	\$15,141,600	\$ 15,141,600	
State Grants.....	6,346,300	6,346,300	6,346,300	
Fringe Benefits Paid Directly By the State.....	1,792,500	1,792,500	1,792,500	
Total Government Support.....	24,594,200	23,280,400	23,280,400	
Other Revenues:				
Fines, Fees and Other.....	305,000	305,000	279,900	\$ (25,100)
Interest from Enoch Pratt Endowment.....	25,000	25,000	25,000	
Total Other Revenues.....	330,000	330,000	304,900	(25,100)
Total Revenues.....	24,924,200	23,610,400	23,585,300	(25,100)
Expenditures:				
Informational Services.....	24,924,200	23,610,400	23,220,300	390,100
Total Expenditures.....	24,924,200	23,610,400	23,220,300	390,100
Excess of Revenue over Expenditures - Net Change in Fund Balances.....			365,000	\$ 365,000
Fund Balances - Beginning of Year.....			1,496,100	
Fund Balances - End of Year.....			1,861,100	
Adjustments to Reconcile to GAAP Basis:				
Addition of Encumbrances Outstanding.....			1,013,000	
Encumbrances Cancelled by Accounts Payable.....			40,000	
Less: Accounts Payable not Recorded for Budgetary Purposes.....			(334,400)	
Fund Balance - End of Year (GAAP Basis).....			\$ 2,579,700	

The notes to the basic financial statements are an integral part of this statement.

**ENOCH PRATT FREE LIBRARY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
SPECIAL REVENUE - OTHER FUND
FOR THE YEAR ENDED JUNE 30, 2012
(Rounded to Nearest Hundred Dollars)**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Private Support:				
Gifts, Contributions and Bequests.....	\$ 3,037,000	\$ 3,037,000	\$ 2,145,800	\$ (891,200)
Universal Service Fund.....	<u>250,000</u>	<u>250,000</u>		<u>(250,000)</u>
Total Private Support.....	<u>3,287,000</u>	<u>3,287,000</u>	<u>2,145,800</u>	<u>(1,141,200)</u>
Other Revenues:				
Fines, Fees and Other.....	193,000	193,000		(193,000)
Investment Income.....	314,300	314,300	297,600	(16,700)
Gain on Investments.....			<u>186,700</u>	<u>186,700</u>
Total Other Revenues.....	<u>507,300</u>	<u>507,300</u>	<u>484,300</u>	<u>(23,000)</u>
Total Revenues.....	<u>3,794,300</u>	<u>3,794,300</u>	<u>2,630,100</u>	<u>(1,164,200)</u>
Expenditures:				
Information Services.....	<u>3,795,500</u>	<u>3,795,500</u>	<u>3,070,500</u>	<u>725,000</u>
Total Expenditures.....	<u>3,795,500</u>	<u>3,795,500</u>	<u>3,070,500</u>	<u>725,000</u>
Excess of Revenue over Expenditures - Net Change in Fund Balances.....	(1,200)	(1,200)	(440,400)	<u>\$ (439,200)</u>
Fund Balances - Beginning of Year.....	<u>13,915,000</u>	<u>13,915,000</u>	<u>15,820,300</u>	
Fund Balances - End of Year.....	<u>\$ 13,913,800</u>	<u>\$ 13,913,800</u>	15,379,900	
Adjustments to Reconcile to GAAP Basis:				
Addition of Accrued Income.....			68,500	
Less: Accounts Payable not Recorded for Budgetary Purposes.....			<u>(281,400)</u>	
Fund Balance - End of Year (GAAP Basis).....			<u>\$ 15,167,000</u>	

The notes to the basic financial statements are an integral part of this statement.

ENOCH PRATT FREE LIBRARY
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

1. Summary of Significant Accounting Policies

A. Reporting Entity

Maryland law created the Enoch Pratt Free Library (Library) in 1882, which enabled the City of Baltimore (City) to accept a donation from Enoch Pratt to establish "The Enoch Pratt Free Library of Baltimore City." The City owns the Library buildings; however a self-perpetuating Board of Trustees administers its operations. In 1971, the Maryland General Assembly designated the Library as the State Library Resource Center.

The Library receives funds from the City and State in the form of appropriations and grants, private donations, gifts and grants made directly to the Board of Trustees, as well as an endowment from the Enoch Pratt Trust Fund. The City's Department of Finance operates as a service agency for the Library, providing such services as general accounting, payroll, disbursements and other services. The Library is subject to the budgetary control and expenditure authorization of the City concerning the appropriations included in the General Fund of the Library.

The Library is incorporated in the basic financial statements of the City as a blended component unit in accordance with criteria established by the Governmental Accounting Standards Board.

Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. Based on the aforementioned criteria, there are no component units for which the Library exercises oversight authority.

The basic financial statements of the Library are prepared from the records of the City and the Library. The governmental fund statements pertain to the operations of the Library and do not reflect those activities related to capital projects or debt service, as these are the responsibility of the City and reflected in its basic financial statements. The accounting and financial reporting policies of the Library included in this report conform to accounting principles generally accepted in the United States and reporting standards as promulgated by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants.

These basic financial statements, as presented, reflect only the financial position and results of operations of the Library. They are not intended to present fairly the financial position of Baltimore City taken as a whole or the results of its operations in conformity with accounting principles generally accepted in the United States.

B. Basis of Presentation, Basis of Accounting

Basis of Presentation

Entity-wide Financial Statements. The statement of net assets and the statement of activities display information about the overall financial position and activities of the Library. These statements are reported using the economic resources measurement focus and the accrual basis of accounting. The activities of the Library are primarily financed through property taxes, intergovernmental revenues, and other non-exchange transactions. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place.

Program revenues include: (a) fines, fees, and charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operations or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Governmental Fund Financial Statements. The fund financial statements provide information about the Library's governmental funds. The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues applicable to the current fiscal year and collected soon after year-end are recognized as revenue. Expenditures expected to be paid from currently available resources are recorded when the related fund liability is incurred, except for payments for compensated absences, which are recognized as expenditures when paid.

The Library reports the following major governmental funds:

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

Special Revenue - Grants Fund. These funds account for revenues derived from certain governmental grants and other revenue sources that are restricted by law or administrative action to expenditures for specific purposes.

Special Revenue - Other Fund. The proceeds include the spendable portion of gifts and endowments received by the Library.

Permanent Fund. The proceeds include the nonspendable portion of the Library's Endowment Fund.

Measurement Focus, Basis of Accounting

Entity-wide Financial Statements. The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or

giving) equal value in exchange, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Library considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end, except for grant and entitlement revenue which have a 90-day availability period. Expenditures are recorded when the related fund liability is incurred, except for compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds.

Under the terms of the grant agreements, the Library funds certain programs by a combination of specific cost-reimbursement grants, categorical grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Library's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical grants, and then by general revenues.

C. Specific Accounting Practices

Equity in the City's Pooled Cash and Cash Equivalents

Except for the Library Trustees' endowment investments, the City of Baltimore has custody of Library funds. The cash balances of City funds are pooled and invested by the City for the purpose of increasing earnings through investment activities. The pool's investments are reported at fair value at June 30, 2012, based on market prices. The individual funds' portions of the pool's fair value are presented as "Equity in the City's Pooled Cash and Cash Equivalents."

Cash

Cash includes demand deposits, as well as overnight investments.

Investments

Investment securities held by the Library are presented in the financial statements at market value at June 30, 2012, which approximates fair value. Real estate is valued at the most recent appraisal.

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of receipt. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	40-50 years
Building Improvements	20-50 years
Equipment	5 years
Library Books and Materials	10 years

The Library's policy is to capitalize fixed assets with a cost basis of \$5,000 or more.

Endowments

The Library's Endowment is composed of the following four types of funds:

- (1) Principal Spendable, Income Restricted.
- (2) Principal Spendable, Income Unrestricted.
- (3) Principal Nonspendable, Income Restricted.
- (4) Principal Nonspendable, Income Unrestricted.

The last two funds are permanent endowments for which donors have stipulated as a condition of the gift that the principal be maintained in perpetuity. The terms of the gift stipulates how earnings are to be used, either for a restricted or unrestricted purpose. In accordance with classic trust law, the Library follows the policy of allocating gains and losses from appreciation or depreciation to the principal.

Compensated Absences

The liability for compensated absences reported in the entity-wide financial statements consists of unpaid, accumulated annual sick, vacation and personal leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, approved requisitions and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the General Fund. Encumbrances are treated as commitments of fund balances in this fund because they do not constitute expenditures or liabilities. Encumbrances are reported with expenditures in the General Fund budgetary basis financial statement.

Fund Balance/Net Assets

In accordance with GASB 54, the governmental fund financial statement fund balances are classified as follows:

Nonspendable – Includes fund balance amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Includes fund balance amounts that can be spent only for specific purposes because of limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions.

Committed – Includes fund balance amounts that can be used for specific purposes determined by a formal action by the Library Director or her designee, the City or State Government. Similar action is required to modify or rescind such commitments. The Board of Trustees (the Library's highest level of decision-making authority) has granted the Director the authority to commit or assign funds.

Assigned – Includes fund balance amounts that are intended for use for specific purposes as determined by the Director or her designee in accordance with all applicable laws and regulations.

Unassigned – Represents that residual classification in the General Fund and includes all spendable amounts not contained in the four classifications described above.

Net assets in the government-wide statements are categorized as follows:

Invested in Capital Assets – consists of capital assets, net of accumulated depreciation.

Restricted Net Assets - net assets that have third party limitations on their use.

Unrestricted Net Assets – all net assets that are not included in the categories identified above.

Order of Fund Balance Spending Policy

When an expense is incurred that can be paid using restricted or unrestricted resources (net assets), the Library's policy is to first apply toward restricted resources and then toward unrestricted resources. In governmental funds, the Library's policy is to first apply the expenditure toward restricted fund balance then to other, less-restrictive classifications.

Sick, Vacation and Personal Leave

Employees earn one day of sick leave for each completed month of service and there is no limitation on the number of sick days that employees can accumulate. A portion of unused sick leave earned annually during each twelve-month base period may be converted to cash at a maximum of three days, computed on an attendance formula. Upon retirement with pension benefits, or termination of employment after completion of twenty or more years of service without pension benefits, employees receive one

day's pay for every four sick leave days accumulated and unused at the day of separation or one day's pay for every three such days, depending on the employee's bargaining unit. Under any other such conditions of separation, unused sick leave is forfeited. Sick leave benefit expenditures are not recorded until paid, except that vested and expected to be vested unused sick leave is recorded when leave is earned in the entity-wide statements. The liability is not expected to be reduced in the succeeding year.

The professional and certain other employees of the Library, which comprise the majority of the employees, may accumulate a maximum of 128 vacation and personal leave days depending on length of service. The administrative and supervisory employees may accumulate a maximum of 224 vacation and personal leave days depending upon length of service. The leave may be taken through time off or carried until paid upon termination or retirement. Accumulated vacation and personal leave is recorded in the entity-wide financial statements. This liability is not expected to be reduced in the succeeding year.

Interfund Transactions

Transfers of Expenditures (Reimbursements) - Reimbursement of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

2. Budget Process and Budgetary Basis of Accounting

Annual budgets are adopted for the General Fund, all Special Revenue Funds, except for Grants Revenue Funds, and the Permanent Fund, on a basis consistent with accounting principles generally accepted in the United States, except for certain miscellaneous revenues and expenditures which are not budgeted and encumbrances which are recognized as expenditures for budgetary purposes.

The Library's General Fund results from the City's budget process. The budget of the City is a detailed operating plan, which identifies estimated costs and results in relation to estimated revenues. The budget includes: (1) the programs, projects, services, and activities to be provided during the fiscal year, (2) the estimated resources (inflows) and amounts available for appropriation, and (3) the estimated charges to appropriations. The budget represents a process through which policy decisions are made, implemented, and controlled. The City Charter prohibits expending funds for which there is no legal appropriation.

The following procedures establish the budgetary data reflected in the basic financial statements:

Original Budget

- (1) City agencies submit their anticipated annual budget needs to the Department of Finance during December.

- (2) From December through March, the Mayor and the Department of Finance analyze, review, and refine the budget submittals.
- (3) In April, the Director of Finance sends its recommended budget plan to the Board of Estimates. The Board then holds hearings and the recommended budget is amended as necessary. Citizens have the opportunity to offer input before the Board votes on the budget.
- (4) In May, a majority vote of the Board of Estimates approves the total budget and sends it to the City Council. The Board of Estimates must submit the proposed budget for the next fiscal year to the City Council at least 45 days before the beginning of said fiscal year. The Board of Estimates prepares a proposed Ordinance of Estimates to be submitted to the City Council. The Ordinance of Estimates is the legal authority for the enactment of the budget.
- (5) The City Council then holds hearings on the proposed Ordinance of Estimates, with additional citizen input before it votes in June. The City Council shall adopt the budget at least five days before the beginning of the fiscal year. The City Council then sends the approved Ordinance of Estimates to the Mayor.
- (6) The Mayor then either approves the total Ordinance of Estimates, or disapproves some items and approves the rest of the Ordinance of Estimates.
- (7) The Library's Board of Trustees reviews and approves a Special Revenue - Other Fund and Permanent Fund budget based on anticipated contributions, investment income and needs for the forthcoming year at its June meeting.

Final Budget

The final budgetary data presented in the basic financial statements reflects the following changes to the original budget:

- (1) Appropriations for a particular program, purpose, activity, or project may, upon the recommendation of the head of the municipal agency concerned and the Director of Finance, and with the approval of the Board of Estimates, be carried over to the subsequent fiscal year to carry out the initial appropriation objectives. All appropriations not carried over lapse at the end of the fiscal year in which they were made. In addition, funds encumbered for contracts, purchase orders, approved requisitions or other actual commitments, as well as funds dedicated to grant programs and capital improvements are carried out over the ensuing fiscal year until utilized or cancelled.

- (2) The adopted budget is prepared and appropriated on an agency, program, activity, and object of expenditure basis by fund. Purchase orders, which result in an operating or capital overrun, are not released until additional appropriations are made available. Expenditures for each adopted operating budget may not legally exceed appropriations at the agency level. Administratively, the Department of Finance has the authority to move appropriations between activities of the same program within the same agency. The Board of Estimates has the authority to transfer appropriations between programs within the same agency. Only the City Council can transfer appropriations between agencies.
- (3) The City Charter permits further appropriations for programs included in the original Ordinance of Estimates made necessary by material changes in circumstances and additional appropriations for new programs or grant awards which could not reasonably be anticipated when formulating the original Ordinance of Estimates.

Budgetary data, as revised, is presented in the basic financial statements for the General Fund and Special Revenue - Other Fund. Final budgetary data excludes prior year amounts reserved for encumbrances for appropriate comparison to actual expenditures.

3. Reconciliation of Entity-wide and Fund Financial Statements

A summary reconciliation of the difference between total fund balance as reflected on the governmental funds balance sheet and the net assets for governmental activities as shown on the entity-wide statement of net assets is presented on the face of the governmental funds balance sheet. The asset and liability elements which comprise the reconciliation difference stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the entity-wide financial statements use the economic resources measurement focus and accrual basis of accounting.

A summary reconciliation of the difference between net changes in fund balance as reflected on the governmental funds statement of revenues, expenditures and changes in fund balances, and change in net assets for governmental activities as shown on the entity-wide statement of activities is presented in an accompanying schedule to the governmental funds statement of revenues, expenditures and changes in fund balances. The revenue and expense elements which comprise the reconciliation difference stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting, while the entity-wide financial statements use the economic resources measurement focus and accrual basis of accounting.

4. Deposits and Investments

A. Cash Deposits

As of June 30, 2012, the Library's bank balances totaled \$2,324,200. Of the total bank balance, \$472,000 was insured through the Federal Depository Insurance Corporation (FDIC). The remaining \$1,852,200 was collateralized with pooled securities held by the financial institutions' trust departments. These securities are held in the name of the financial institution and not that of the Library.

B. Investments

The Board of Trustees (the Board) of the Enoch Pratt Free Library of Baltimore City is independent and authorized by Maryland Law and the Enoch Pratt bequest to make investments. The Board accomplishes the daily management of the Library's investments through an external investment advisor who acts as a fiduciary for the Library and is charged to use a conservative approach within guidelines set by the Board which consider the probable safety of investments, avoidance of speculative investments, and investing as people of prudence, discretion, and intelligence would in a similar situation. Adherence to those guidelines is monitored by the Library's Board Finance Committee through review of quarterly reports and meetings.

The Library's invested assets, at fair value, at June 30, 2012 are presented below (rounded to nearest hundred dollars):

	<u>Market Value</u>
Debt Securities:	
Corporate bonds	\$7,293,300
Foreign bonds	208,300
Money mutual funds	<u>1,233,800</u>
Total debt securities	<u>8,735,400</u>
Other:	
Equities	19,212,600
Real Estate Investment Trusts	489,400
Real estate	<u>163,800</u>
Total other	<u>19,865,800</u>
Total investments	<u>\$ 28,601,200</u>

These investments relate to the following funds (rounded to nearest hundred dollars):

	<u>Cost</u>	<u>Market</u>
Special Revenue-Grants Fund	\$ 192,700	\$ 263,000
Special Revenue-Other Fund	13,398,700	18,285,200
Permanent Fund	<u>7,366,500</u>	<u>10,053,000</u>
Totals	<u>\$20,957,900</u>	<u>\$28,601,200</u>

The Library had a realized gain of \$779,800 and an unrealized loss of \$367,100 or a net total gain (net of fees) of \$287,100 on Endowment Fund investments during fiscal year 2012. Cost for purposes of computing gain or loss is the historical cost of the individual investments. The calculation of realized gains and losses is independent of the calculation of the change in the fair value of investments. Realized gains and losses of the current period include unrealized amounts from prior periods.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. As of June 30, 2012 the Library did not have any single investment that's market value exceeded 5% of the total investments.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. It is the Board's policy that external managers demonstrate sensitivity to currency risk. The Library's exposure to foreign currency risk is presented on the following table (rounded to nearest hundred dollars).

<u>Currency Traded</u>	<u>Market Value</u>
Brazilian Real	<u>\$208,300</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Library uses Segmented Time Distribution as a measure of interest rate sensitivity for bonds. The Board has no fixed income interest rate policy. The time risk of debt investments is presented in the table below.

<u>Asset Type</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>Greater Than 10</u>
Corporate bonds	\$7,293,300	\$1,694,600	\$3,984,300	\$1,001,400	\$613,000
Foreign bonds	208,300	208,300			
Money mutual funds	<u>1,233,800</u>	<u>1,233,800</u>			
Total debt securities	<u>\$8,735,400</u>	<u>\$3,136,700</u>	<u>\$3,984,300</u>	<u>\$1,001,400</u>	<u>\$613,000</u>

Credit Risk by Quality

Credit risk is the risk that the issuer or other counterpart to an investment will not fulfill its obligation. The Library Board's policy is that at least ninety percent of the fixed income portfolio be in investment grade bonds rated BBB or better. The Library's rated debt investments as of June 30, 2012 were rated by a nationally recognized statistical rating agency and are presented below using the Standard and Poor's rating scale:

<u>Asset Type</u>	<u>Quality Ratings</u>				
	<u>Market Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>
Corporate bonds	\$ 7,293,300	\$ 298,300	\$1,246,600	\$ 2,830,200	\$ 2,918,200
Foreign bonds	208,300	208,300			
Money mutual funds	<u>1,233,800</u>	<u>1,233,800</u>			
Total debt securities	<u>\$ 8,735,400</u>	<u>\$ 1,740,400</u>	<u>\$1,246,600</u>	<u>\$ 2,830,200</u>	<u>\$ 2,918,200</u>

5. Capital Assets

Capital assets activity for the year ended June 30, 2012, was as follows (rounded to nearest hundred dollars):

<u>Information Services Capital Assets</u>				
<u>Class</u>	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2012</u>
Capital assets, not being depreciated				
Land	\$1,676,400			\$1,676,400
Fine arts	1,061,800			1,061,800
Special collections	319,400			319,400
Construction in progress	558,400	\$ 576,000		1,134,400
Total capital assets, not being depreciated	3,616,000	576,000		4,192,000
Capital assets, being depreciated				
Buildings and improvements	60,902,900			60,902,900
Equipment	8,930,900	117,900		9,048,800
Library books and materials	51,117,200	3,577,700	\$ 4,026,200	50,668,700
Total capital assets, being depreciated	120,951,000	3,695,600	4,026,200	120,620,400
Less depreciation for:				
Buildings and improvements	13,905,700	1,404,300		15,310,000
Equipment	7,983,500	498,100		8,481,600
Library books and materials	24,749,800	4,709,100	4,026,200	25,432,700
Total accumulated depreciation	46,639,000	6,611,500	4,026,200	49,224,300
Total capital assets, being depreciated, net	74,312,000	(2,915,900)		71,396,100
Information Services capital assets, net	\$ 77,928,000	\$ (2,339,900)		\$ 75,588,100

Depreciation expense was charged to functions/programs of the Library for the fiscal year ended June 30, 2012, as follows (rounded to nearest hundred dollars):

Governmental activities:

Information Services	<u>\$6,611,500</u>
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6. General Long-Term Obligations

Long-term liabilities and activity for the year ended June 30, 2012 were as follows (rounded to nearest hundred dollars):

Governmental Activities

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Compensated absences	<u>\$4,122,900</u>	<u>\$201,700</u>	<u> </u>	<u>\$4,324,600</u>	<u>\$2,990,100</u>

Liquidations of compensated absences occur in the General Fund and Special Revenue - Grants Fund.

7. Interfund Balances and Activity

A. Balance Due to/from Other Funds

Balances due to/from other funds at June 30, 2012 were as follows (rounded to nearest hundred dollars):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Special Revenue –Grants	General Fund	\$ 64,600
Special Revenue –Grants	Special Revenue – Other	<u>3,000,900</u>
		<u>\$ 3,065,500</u>

B. Transfers to/from Other Funds

There were no transfers to/from other funds at June 30, 2012.

8. Leases

The Library has entered into leases for rental of various pieces of equipment. All leases contain cancellation provisions and are subject to annual appropriations by the City and State governments. During fiscal year 2012, rent and lease expenditures approximated \$332,200 for all types of leases, including significant short-term equipment rentals. These expenditures were made primarily from the General Fund.

9. Retirement System

Plan Descriptions

All employees of the Enoch Pratt Free Library, other than some clerical and professional employees who are members of the Maryland State Retirement System to which the City makes no contributions, are covered by the City of Baltimore's Employees' Retirement System (ERS).

The ERS is a cost-sharing multiple employer defined pension plan administered by the City of Baltimore Retirement System. ERS provides retirement, disability, and death benefits to plan members and beneficiaries. The plan is managed by a Board of Trustees in accordance with Article 22 of the Baltimore City Code. Plan benefits may be amended only by the City Council. The Employees' Retirement System issues a publicly available financial report that includes financial and required supplementary information. That report may be obtained by writing to:

Baltimore City Retirement Systems
7 East Redwood Street, 12th Floor
Baltimore, Maryland 21202-3470

Certain ERS information is presented below from the most recent financial report and actuarial valuation available. These reports are dated June 30, 2012.

Funding Policy

The Baltimore City Code establishes the contribution requirements for plan members and the City. Employees hired on or after July 1, 1979 must join the non-contributory plan. Employees hired prior to July 1, 1979 contribute to the plan at a rate of 4.0% unless they elected to transfer to the non-contributory plan. The City contributes to the plan at a rate of 20.0% of covered payroll. During fiscal year 2012, the City's annual required contribution was \$77,995,003. The annual contribution rate was determined as part of the actuarial valuation report for June 30, 2012, using projected unit credit cost method. The actuarial assumptions included (a) 7.75% pre-retirement investment return rate, (b) 6.55 post-retirement investment return rate, and (c) projected salary increases of approximately 2.75%. Post-retirement benefit increases are provided to those retirees and beneficiaries entitled to such benefits when the plan is determined at June 30 to have excess earnings. The actuarial value of plan assets is determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

The unfunded actuarial accrued liability is being amortized as a level dollar on an open-ended basis. The remaining amortization period at June 30, 2012 is 20 years.

The following schedules present information for the entire Employees' Retirement System:

Three Year Trend Information
(Dollars Expressed in Thousands)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed
June 30, 2010	\$48,748	100%
June 30, 2011	62,374	100%
June 30, 2012	77,995	100%

Schedule of Funding Progress
(Dollars Expressed in Thousands)

Actual Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2010	\$1,390,515	\$1,830,224	\$439,709	76.0%	\$401,329	109.6%
June 30, 2011	1,410,211	1,940,447	530,236	72.7%	392,941	134.9%
June 30, 2012	1,429,666	2,111,278	681,612	67.7%	390,558	174.5%

10. Risk Management

The Library participates in the City's Risk Management Fund. The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1987, the City established the Risk Management Fund (an internal service fund) to account for and finance its uninsured risks. The City's risk financing techniques include a combination of risk retention through self-insurance and risk transfer through the purchase of commercial insurance. The Risk Management Fund services all claims for risk of loss, including general liability, property and casualty, workers' compensation, unemployment compensation, automobile physical damage and bodily injury, and sundry other risks. Commercial insurance coverage is provided for each property damage claim in excess of \$500,000 with a cap of \$500,000,000. Settled claims have not exceeded this commercial coverage in any of the past three years. The City also provides medical insurance coverage for all employees and retirees. Employees are required to pay a percentage of the annual cost of the medical plans and the remaining costs are paid by the internal service fund.

All funds of the City participate and make payments to the Risk Management Fund based on actuarial estimates and historical cost information of the amounts needed to pay prior and current year claims. During fiscal year 2012, the Library's share of the City's cost was \$3,690,000.

11. Deferred Revenue

Deferred revenue in the Special Revenue - Grants Fund is associated with grant funds received as of June 30, 2012, for which related expenditures have not been incurred or the expenditures have been incurred and the reimbursement funding is not available as of June 30, 2012.

12. Postemployment Benefits

Baltimore City administrative policy provides that other postemployment benefits, other than pension benefits, be provided to all employees of the City. These benefits include certain healthcare and life insurance benefits. All employees who retire are eligible to receive these benefits. The City of Baltimore provides other postemployment benefits (OPEB) to all qualified City employees. The OPEB Plan is a contributory, single employer defined benefit plan. The benefit and contribution provisions of the Plan are established and may be amended by the City. The Plan provides postemployment healthcare, prescription and life insurance benefits to retirees and their beneficiaries. In order to effectively manage the Plan, the City established an OPEB Trust Fund. All retiree and City contributions are deposited into the Trust Fund and all retiree related health and life insurance benefits are paid from the Trust Fund. The City also contracted with the Board of Trustees of the Employees' Retirement System of the City of Baltimore, Maryland to act as investment manager for the Trust Fund. BNY Mellon Bank Asset Servicing is the Trust Fund's asset custodian. The Plan does not issue stand alone financial statements; however, the OPEB Trust Fund is included in the City's financial statements as a Trust and Agency Fund.

At June 30, 2010, the most recent data available, there were 21,634 retirees eligible for these benefits. The City reimburses approximately 50% of the premium cost incurred by pre-Medicare retirees and their dependents. The City also reimburses approximately 50% of the cost for Medicare supplement for each retiree or dependent eligible for Medicare. Such benefits are accounted for on a cash basis so that payments during the current year represent benefit coverage for currently retired employees or their beneficiaries. During fiscal year 2011, these other postemployment benefits amounted to \$161.2 million. Since this amount includes employees from other City departments, none of these costs are charged to the Library.

13. Fringe Benefits Paid Directly by the State of Maryland

The State of Maryland, by agreement with the political subdivisions, mandates professional and certain other employees of the Library to join the Maryland State Teacher's Retirement System. The State is responsible for the payment of the pension costs for these individuals. The amount of pension contribution paid by the State for eligible Library employees approximated \$1,792,449 for fiscal year 2012. The State payments are based on an annual State budget appropriation and such payments could be rescinded if funds were not appropriated. These payments are also subject to possible State audit exceptions in subsequent fiscal years.

14. Commitments and Contingencies

The Library receives a substantial amount of its support from the State of Maryland and Baltimore City. A significant reduction in the level of support may have an effect on the Library's programs and activities.

The Library participates in several State and Federal grant programs. Entitlement to grant resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal and State regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits in accordance with grantors' requirements. Any disallowances as a result of these audits become a liability of the Library. As of June 30, 2012, the Library estimates that no material liabilities will result from such audits.

The Library may be party to legal proceedings, which normally occur in its operations. The Library Board of Trustees utilizes the Baltimore City Law Department to address such proceedings. In the opinion of the Library's Management, there are no legal proceedings that would have a material impact on the financial statements of the Library.

15. Promises to Give

Contributions are recognized by the Library in the period received. Promises to give that are pledged to the Library but not received during the fiscal year are expected to be received in subsequent periods and are therefore not reported in the financial statements. As of June 30, 2012, the Library had an outstanding balance of \$469,700 of pledges expected to be received in subsequent periods.

16. Contributed Services

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Library's programs, principally in the areas of information services, programming, and support services. The value of these services, estimated to be \$204,000 during fiscal year 2012, has not been recorded in the accompanying financial statements.

17. Income Tax Status

Under applicable provisions of the Internal Revenue Code, the Library is not subject to income taxes, except for unrelated business income, if any.

STATISTICAL SECTION

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**ENOCH PRATT FREE LIBRARY
GOVERNMENTAL REVENUES BY SOURCE
AND EXPENDITURES BY FUNCTION
LAST TEN FISCAL YEARS
(Rounded to Nearest Hundred Dollars)
Unaudited**

Year ending June 30,	2012	2011	2010	2009	2008
Revenues					
Baltimore City - General Fund	\$ 15,141,600	\$ 15,264,600	\$ 14,405,100	\$ 15,438,200	\$ 15,606,800
Federal Grants	194,700		32,800	427,700	369,300
State Grants	15,769,400	16,427,500	16,727,000	17,114,000	17,076,200
Other Grants	139,400	75,800	185,300	126,400	237,200
Fringe Benefits Paid Directly by the State	1,792,500	1,811,700	1,733,600	1,418,800	1,390,200
Gifts, Contributions, Bequests and "e-rate" Revenue	2,146,800	2,062,700	2,718,500	3,303,300	3,682,400
Fines, Fees and Other	279,800	323,000	306,400	373,800	251,300
Investment Income	459,200	544,400	606,400	319,500	80,500
Interest from Enoch Pratt Endowment	25,000	25,000	46,000	74,400	73,200
Gain (Loss) on Investments	287,100	4,473,200	2,087,000	(3,881,600)	(1,108,300)
Total	\$ 36,235,500	\$ 41,007,900	\$ 38,848,100	\$ 34,714,500	\$ 37,658,800
Expenditures					
Total	\$ 36,441,500	\$ 37,360,500	\$ 36,758,700	\$ 41,198,100	\$ 41,571,800
Year ending June 30,	2007	2006	2005	2004	2003
Revenues					
Baltimore City - General Fund	\$ 15,481,500	\$ 14,009,200	\$ 13,112,900	\$ 13,215,700	\$ 12,044,500
Federal Grants	303,300	11,500	113,100	194,800	440,100
State Grants	16,270,700	15,842,700	15,849,800	15,617,200	14,784,700
Other Grants	247,600	193,900	168,400	424,600	677,200
Fringe Benefits Paid Directly by the State	1,105,500	1,044,400	1,051,100	1,042,900	1,047,000
Gifts, Contributions and Bequests	3,698,700	2,889,100	2,848,400	3,970,500	2,381,100
Fines, Fees and Other	313,400	348,600	430,800	311,400	349,700
Investment Income	508,000	650,300	482,200	403,400	476,200
Interest from Enoch Pratt Endowment	93,500	75,000	74,000	63,600	111,900
Gain (Loss) on Investments	2,470,500	2,261,300	688,200	3,993,000	351,000
Total	\$ 40,492,700	\$ 37,326,000	\$ 34,818,900	\$ 39,237,100	\$ 32,663,400
Expenditures					
Total	\$ 40,708,500	\$ 37,752,900	\$ 32,216,300	\$ 33,622,900	\$ 32,946,300

Source: Library Financial Records

**Enoch Pratt Free Library
Miscellaneous Statistics
Last Ten Fiscal Years
Unaudited**

<u>Year</u>	<u>Baltimore City Population</u>	<u>Maryland Population</u>
2012	637,418	5,699,478
2011	636,919	5,633,597
2010	637,455	5,618,344
2009	631,366	5,615,727
2008	635,815	5,600,388
2007	636,251	5,558,058
2006	628,670	5,508,909
2005	633,100	5,519,000
2004	639,500	5,428,800
2003	644,300	5,368,800
<u>Year</u>	<u>Number of Employees (FTE)</u>	<u>Book Volumes</u>
2012	414	2,386,554
2011	420	2,307,284
2010	421	2,446,310
2009	432	2,467,404
2008	470	2,457,670
2007	474	2,601,897
2006	476	2,275,033
2005	464	2,174,474
2004	460	2,223,255
2003	448	2,749,821
<u>Year</u>	<u>Number of Library Materials Circulated</u>	<u>Total of Reference and Readers Assisted</u>
2012	1,253,984	1,929,131
2011	1,247,485	1,735,640
2010	1,256,321	1,629,433
2009	1,329,541	1,748,387
2008	1,335,827	1,651,751
2007	1,353,987	1,579,934
2006	1,374,373	1,476,243
2005	1,367,939	1,476,243
2004	1,397,200	1,554,681
2003	1,396,356	1,482,860
<u>Year</u>	<u>SAILOR Page Views</u>	<u>Library Web Site Page Views</u>
2012	532,469	13,996,119
2011	779,273	12,095,231
2010	1,656,230	11,547,869
2009	1,649,635	9,544,340
2008	1,883,051	8,727,981
2007	3,564,581	8,841,303
2006	2,432,499	7,757,883
2005	2,397,927	4,874,354
2004	2,232,122	4,630,186
2003	N/A	N/A

Source: Library financial records

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