

LAWRENCE COUNTY PUBLIC LIBRARY

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2011



WELLS & COMPANY, P.S.C.

*Certified Public Accountants*

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## INDEPENDENT AUDITOR'S REPORT

Kentucky Department for Libraries and Archives  
Board of Trustees, Lawrence County Public Library  
Louisa, Kentucky

We have audited the accompanying financial statements of the Lawrence County Public Library as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Lawrence County Public Library Board of Trustees. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the 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 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 opinion.

As described in Note 1, the Lawrence County Public Library prepares financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position – modified cash basis of the governmental activities of the Lawrence County Public Library as of June 30, 2011, and the changes in financial position – modified cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2011, on our consideration of the Lawrence County Public 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 considered in assessing the results of our audit.



Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 17 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lawrence County Public Library's financial statements as a whole. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Wells & Company, PSC*

Certified Public Accountants  
Paintsville, Kentucky  
October 31, 2011

LAWRENCE COUNTY PUBLIC LIBRARY  
 STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
 JUNE 30, 2011

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash on hand	\$ 100
Cash in bank - checking	966,058
Cash in bank - savings	212,275
Cash in bank - money market accounts	377,568
Certificate of deposit	269,832
Investments	269,478
Capital assets:	
Land and construction-in-progress	160,112
Other capital assets, net of accumulated depreciation	3,497,728
Bond issue costs, net	<u>44,657</u>
Total Assets	<u>5,797,808</u>
<b>LIABILITIES</b>	
Accrued payroll taxes	919
Other accrued liabilities	124
Bonds payable, net of discount	
Due within one year	105,000
Due in more than one year	<u>2,553,388</u>
Total Liabilities	<u>2,659,431</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	999,452
Restricted for:	
Capital projects	102,512
Debt service	166,966
Unrestricted	<u>1,869,447</u>
<b>Total Net Assets</b>	<u><u>\$ 3,138,377</u></u>

See accompanying notes to basic financial statements.

LAWRENCE COUNTY PUBLIC LIBRARY  
 STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Library	\$ 488,770	\$ 11,627	\$ 150,000	\$ (327,143)
Interest on long-term debt	127,051	-	-	(127,051)
Total governmental activities	<u>\$ 615,821</u>	<u>\$ 11,627</u>	<u>\$ 150,000</u>	<u>(454,194)</u>
<b>General revenues:</b>				
Property tax				596,239
Motor vehicle tax				28,089
Delinquent tax				42,703
Unmined mineral tax				26,567
Franchise tax				182,257
Telecommunications tax				5,632
Other tax				36
Intergovernmental revenue				16,495
Investment income				11,227
Miscellaneous				3,927
Total general revenues and transfers				<u>913,172</u>
Change in net assets				458,978
Net assets - beginning				<u>2,679,399</u>
Net assets - ending				<u>\$ 3,138,377</u>

See accompanying notes to basic financial statements.



LAWRENCE COUNTY PUBLIC LIBRARY  
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCE - MODIFIED CASH BASIS  
JUNE 30, 2011

**ASSETS**

Cash and cash equivalents	\$ 1,556,001
Certificate of Deposits	269,832
Investments	<u>269,478</u>
Total Assets	<u><u>\$ 2,095,311</u></u>

**LIABILITIES AND FUND BALANCES**

Liabilities:	
Accrued state payroll taxes	\$ 919
Accrued state unemployment taxes	<u>124</u>
Total Liabilities	<u>1,043</u>
Fund Balances:	
Restricted for:	
Debt service	166,966
Assigned to:	
Capital projects	102,512
Unassigned	<u>1,824,790</u>
Total Fund Balances	<u>2,094,268</u>
Total Liabilities and Fund Balances	<u><u>\$ 2,095,311</u></u>

See accompanying notes to basic financial statements.

LAWRENCE COUNTY PUBLIC LIBRARY  
 RECONCILIATION OF THE STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCE OF GOVERNMENTAL  
 FUNDS TO THE STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
 JUNE 30, 2011

<b>Fund Balance</b>	\$2,094,268
Amounts reported for governmental activities in the statement of net assets are different because:	
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	
Bonds payable	(2,685,000)
Bond discount	26,612
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:	
Bond issue costs	44,657
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Governmental capital assets	4,447,002
Less: accumulated depreciation	<u>(789,162)</u>
<b>Net Assets</b>	<u><u>\$3,138,377</u></u>

See accompanying notes to basic financial statements.



**LAWRENCE COUNTY PUBLIC LIBRARY  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**Revenues:**

Taxes	\$ 881,523
State aid	16,495
Interest	11,227
Grants	150,000
Other revenues	<u>15,554</u>
 Total revenues	 <u>1,074,799</u>

**Expenditures:**

Salaries and wages	203,675
Payroll taxes	16,176
Employee benefits	30,641
Cleaning and maintenance	12,231
Legal and professional	11,100
Newspapers, magazines, etc.	4,834
Repairs	3,978
Utilities and telephone	27,564
Bookmobile operations	5,053
Insurance	11,827
Supplies	7,705
Postage and box rent	671
Service contracts	6,647
Software	9,980
Hardware	3,179
Travel	1,870
Dues and license	1,344
Reading programs	1,742
Miscellaneous	5,212
Capital outlay	51,386
Debt service:	
Interest expense	126,085
Principal retirement	<u>100,000</u>
 Total expenditures	 <u>642,900</u>
 Net change in fund balances	 431,899
 Fund balances - beginning	 <u>1,662,369</u>
 <b>Fund balances - ending</b>	 <u><u>\$2,094,268</u></u>

See accompanying notes to basic financial statements.

LAWRENCE COUNTY PUBLIC LIBRARY  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
 STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

Net Change in Fund Balances \$ 431,899

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

Debt proceeds provide current financial resources to governmental  
 funds, but issuing debt increases long-term liabilities in the Statement  
 of Net Assets. Repayment of debt principal is an expenditure in the  
 governmental funds, but the repayment reduces long-term liabilities in  
 the Statement of Net Assets. Also governmental funds report the  
 effect of issuance costs, premiums, discounts, and similar items when  
 debt is first issued, whereas these amounts are deferred and amortized  
 in the Statement of Activities. The details of these differences in the  
 treatment of long-term debt and related items are as follows:

Principal paid	100,000
Amortization of bond discount	(966)
Amortization of bond issue costs	(2,627)

Governmental funds report capital outlays as expenditures.  
 However, on the statement of activities, the cost of those assets  
 is allocated over their estimated useful lives as depreciation  
 expense:

Capital asset purchases capitalized	51,386
Depreciation expense	<u>(120,714)</u>

Change in Net Assets of Governmental Activities \$ 458,978

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. *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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or identifiable activity. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the given function or identifiable activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

The fund financial statements provide information about the Library's funds, with separate statements presented for each fund category. The Library has only a general fund.

**B. Basis of Accounting**

Basis of accounting refers to when revenue and expenditures are recognized in the accounts and reported in the financial statements. It is the Lawrence County Public Library's policy to prepare its financial statements on the modified cash basis which is a comprehensive basis of accounting that differs from U. S. generally accepted accounting principles. Consequently, certain revenues are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred.

**C. 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 the donation. 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. A capitalization threshold of \$1,000 is used.

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

<u>Asset Class</u>	<u>Useful Lives</u>
Buildings and Improvements	10-40
Furniture and Equipment	3-10
Vehicles	5

**D. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.



**E. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Unrestricted net assets consists of all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

The Library applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**F. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. Long-term loans are recognized as a liability on the governmental fund financial statements when due.

**G. Budget**

The Library's board approves total budget appropriations only. Therefore, the level of budgetary responsibility is by total appropriations. The budget is prepared on the cash basis of accounting as described in Note 1-B. Unused appropriations for all the annually budgeted funds lapse at the end of the year. The budget amounts shown in the financial statements are the final authorized amounts. There were no budget revisions during the year.

**H. Encumbrance Accounting**

For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year.

**I. Cash and Investments**

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

**J. Bond Discounts and Issue Costs**

Bond issue costs are being amortized over the life of the bonds using the straight-line method. Bond discounts are being amortized over the life of the bonds using the effective interest method.

**K. Fund Equity**

In the fund financial statements, governmental fund balance is presented in five possible categories:

*Nonspendable* – resources which cannot be spent because they are either a) not in spendable form or; b) legally or contractually required to be maintained intact.

**K. Fund Equity (continued)**

*Restricted* – resources with constraints placed on the use of resources are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

*Committed* – resources which are subject to limitations the Library imposes upon itself at its highest level of decision making, and that remain binding unless removed in the same manner.

*Assigned* – resources neither restricted nor committed for which the Library has a stated intended use as established by the Board of Trustees.

*Unassigned* – resources which cannot be properly classified in one of the other four categories.

**NOTE 2. DEPOSITS AND INVESTMENTS**

Under Kentucky Revised Statutes the Library is allowed to invest in obligations of the U. S. Treasury and U. S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized.

The Library invests surplus cash at local banks in the form of certificates of deposits, savings accounts, and money market accounts. This investment call subjects the Library to custodial credit risk; however, the Library considers this risk immaterial, and as such, the Library does not have a formal investment policy to deal with such risk.

The Library, categorizes deposits at local financial institutions to give an indication of the level of risk assumed by the Library at fiscal year-end. The categories are described as follows:

- Category 1 – Insured or collateralized with securities held by the Library or by its agent in the Library’s name.
- Category 2 – Collateralized with securities held by the pledging financial institution’s trust department or agent in the Library’s name.
- Category 3 – Uncollateralized.

Deposits categorized by level of risk at June 30, 2011 are as follows:

<u>Account</u>	<u>Bank Balance</u>	<u>Category</u>			<u>Carrying Amount</u>
		<u>1</u>	<u>2</u>	<u>3</u>	
Cash	<u>\$1,835,012</u>	<u>\$824,230</u>	<u>\$1,010,782</u>	<u>\$ 0</u>	<u>\$1,825,733</u>

**NOTE 3. RETIREMENT PLAN**

The Library participates in both 401K and 457 deferred compensation plans, which are administered by the Kentucky Employees’ Deferred Compensation Authority. Employees have the option to participate in the plans if they desire. Funding for the plans are provided thru voluntary payroll withholding, within prescribed limits set by the Internal Revenue Service, and matching contributions as determined by the Board of Trustees of the Lawrence County Library.

The Library contributed the amount of \$9,513, during the year ended June 30, 2011, equal to 6.00% of the retirement wages. Contributions by the Library’s employees for the year were \$18,055. The Library’s payroll for the year ended June 30, 2011 was \$203,675 including retirement wages of \$158,550.



**NOTE 3. RETIREMENT PLAN (continued)**

Additional information concerning the plan can be obtained from the Kentucky Public Employees' Deferred Compensation Authority, 105 Sea Hero Rd., Suite 1, Frankfort, Kentucky 40601-5404.

**NOTE 4. COMPENSATED ABSENCES**

Employees are granted vacation benefits in varying amounts depending on tenure with the Library. Sick leave accumulates on the same basis as annual leave but may not be taken until after six months of employment. Sick leave may accumulate up to 40 days.

Since the Library prepares its financial statements on the cash basis, as described in Note 1, no liability or expense for the estimated current portion of the unpaid compensated absences have been recorded.

**NOTE 5. RISK MANAGEMENT**

The Library is exposed to various forms of loss related torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. Each of these risk areas is covered through the purchase of commercial insurance. The Library has purchased certain policies, which are retrospectively rated which include worker's compensation insurance.

**NOTE 6. CONTINGENCIES**

The Library receives funding from State, and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the Library for its disbursements. Continuation of the Library's grant programs is predicated upon the grantors' satisfaction that the funds provided is being spent as intended and the grantors' intent to continue their programs.

**NOTE 7. COBRA**

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the Library at risk for a substantial loss.

**NOTE 8. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2011, consisted of the following:

<b>Governmental Activities</b>	<b>Balance July 1, 2010</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2011</b>
<b>Capital assets, not being depreciated:</b>				
Land and land improvements	\$ 160,112	\$ -	\$ -	\$ 160,112
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, not being depreciated	<u>160,112</u>	<u>-</u>	<u>-</u>	<u>160,112</u>



LAWRENCE COUNTY PUBLIC LIBRARY  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2011

NOTE 8. CAPITAL ASSETS (continued)

Capital assets, being depreciated:

Buildings and improvements	3,694,220	22,300	-	3,716,520
Books	377,718	20,666	-	398,384
Furniture and equipment	<u>163,566</u>	<u>8,420</u>	<u>-</u>	<u>171,986</u>
<b>Total capital assets being depreciated</b>	<b>4,235,504</b>	<b>51,386</b>	<b>-</b>	<b>4,286,890</b>
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	(232,372)	(89,663)	-	(322,035)
Books	(309,955)	(17,354)	-	(327,309)
Furniture and equipment	<u>(126,121)</u>	<u>(13,697)</u>	<u>-</u>	<u>(139,818)</u>
<b>Total accumulated depreciation</b>	<b><u>(668,448)</u></b>	<b><u>(120,714)</u></b>	<b><u>-</u></b>	<b><u>(789,162)</u></b>
<b>Total capital assets being depreciated, net</b>	<b><u>3,567,056</u></b>	<b><u>(69,328)</u></b>	<b><u>-</u></b>	<b><u>3,497,728</u></b>
<b>Governmental activities capital assets, net</b>	<b><u>\$3,727,168</u></b>	<b><u>\$ (69,328)</u></b>	<b><u>\$ -</u></b>	<b><u>\$3,657,840</u></b>

Depreciation was charged to governmental activities as follows:

Library	<u>\$ 120,714</u>
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NOTE 9. LONG-TERM DEBT

Long-term debt at June 30, 2011 consists of the following:

General Obligation Bonds

On September 1, 2008, the Library issued \$2,880,000 in General Obligation Bonds (Series 2008) with interest rates from 4.25% to 4.95%. The proceeds are to be used for the construction of the new library building.

Bonds:	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Lawrence County Public Library General Obligation Bonds, Series 2008 Issue. Principal installments due in July of each year, interest payable semi-annually in July and January of each year.	\$2,685,000	4.25% to 4.95%	07/2028
<b>Less:</b>			
Current maturities	105,000		
Unamortized discount	<u>26,612</u>		
	<u>\$2,553,388</u>		

LAWRENCE COUNTY PUBLIC LIBRARY  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2011

NOTE 9. LONG-TERM DEBT (continued)

	Amount Outstanding June 30, 2010	Additions	Deductions	Amount Outstanding June 30, 2011	Amounts Due Within One Year
General Obligation Bond – Series 2008	<u>\$2,785,000</u>	\$ -	(\$100,000)	<u>\$2,685,000</u>	<u>\$105,000</u>
Long-Term Debt	<u>\$2,785,000</u>	<u>\$ -</u>	<u>(\$100,000)</u>	<u>\$2,685,000</u>	<u>\$105,000</u>

Principal and interest payments to be made on all long-term debt at June 30, 2011, for each of the next five years and thereafter are as follows:

<u>YEAR ENDING JUNE 30</u>	<u>TOTAL PRINCIPAL</u>	<u>TOTAL INTEREST</u>	<u>TOTAL</u>
2012	\$ 105,000	\$ 121,699	\$ 226,699
2013	110,000	117,130	227,130
2014	115,000	112,349	227,349
2015	115,000	107,461	222,461
2016	120,000	102,468	222,468
2017-2021	675,000	428,749	1,103,749
2022-2026	835,000	256,189	1,091,189
2027-2029	<u>610,000</u>	<u>46,282</u>	<u>656,282</u>
	<u>\$2,685,000</u>	<u>\$1,292,327</u>	<u>\$3,977,327</u>

NOTE 10. SUBSEQUENT EVENT

Management has evaluated and has not recognized any subsequent events through October 31, 2011, the date the financial statements were available to be issued.

AUDITOR'S REPORT





WELLS & COMPANY, P.S.C.

*Certified Public Accountants*  
865 South Mayo Trail, Suite 7  
Paintsville, Kentucky 41240-1215

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**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**

Kentucky Department for Libraries and Archives  
Board of Trustees, Lawrence County Public Library  
Louisa, Kentucky

We have audited the accompanying financial statements – modified cash basis of the Lawrence County Public Library as of and for the year ended June 30, 2011, and have issued our report thereon dated October 31, 2011, which included an explanatory paragraph regarding the omission of required Management Discussion and Analysis. 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 Lawrence County Public Library is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Lawrence County Public 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 Lawrence County Public Library's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lawrence County Public Library's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in 2011-1 below we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in 2011-1 to be a material weakness.

**2011-1 Segregation of Duties**

Condition: Presently, the Library has an absence of appropriate segregation of duties consistent with appropriate internal control objectives.

Criteria: The Library should have appropriate segregation of duties to provide reasonable assurance that the safeguarding of assets and financial records be maximized.

Cause of Condition: Due to its small size and budget restrictions the Library has limited options for establishing an adequate segregation of duties.

Recommendation: Board of Trustees should continue its strong oversight.

Management Comment: Management of the Library concurs with the finding and will continue strong oversight.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lawrence County Public Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Lawrence County Public Library's response to the findings identified in our audit is described above. We did not audit the Lawrence County Public Library's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the organization, the Board of Trustees, Kentucky Department for Libraries and Archives, and federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

*Wells & Company, PSC*

Certified Public Accountants  
Paintsville, Kentucky  
October 31, 2011

REQUIRED SUPPLEMENTAL INFORMATION



LAWRENCE COUNTY PUBLIC LIBRARY  
 BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>			
Taxes:			
Property tax	\$ 505,558	\$ 596,239	\$ 90,681
Motor vehicle tax	19,606	28,089	8,483
Delinquent tax	1,512	42,703	41,191
Unmined mineral tax	37,460	26,567	(10,893)
Franchise tax	130,832	182,257	51,425
Other tax	5,633	5,668	35
State aid	15,300	16,495	1,195
Grants	150,000	150,000	-
Interest earned on investments	2,300	11,227	8,927
Miscellaneous revenues	20,133	15,554	(4,579)
<b>Total revenues</b>	<u>888,334</u>	<u>1,074,799</u>	<u>186,465</u>
<b>Expenditures:</b>			
Salaries and wages	191,745	203,675	(11,930)
Payroll tax expense	15,253	16,176	(923)
Employee benefits	31,305	30,641	664
Cleaning and maintenance	13,000	12,231	769
Legal and professional	12,400	11,100	1,300
Newspapers, magazines, etc.	31,000	4,834	26,166
Repairs	27,000	3,978	23,022
Utilities and telephone	45,500	27,564	17,936
Bookmobile operations	14,000	5,053	8,947
Insurance	30,568	11,827	18,741
Supplies	17,513	7,705	9,808
Postage and box rent	5,100	671	4,429
Service contracts	30,000	6,647	23,353
Software	17,000	9,980	7,020
Hardware	35,000	3,179	31,821
Travel	5,000	1,870	3,130
Dues and license	2,950	1,344	1,606
Reading programs	6,000	1,742	4,258
Miscellaneous	38,000	5,212	32,788
Debt service:			
Interest expense	-	126,085	(126,085)
Principal retirement	79,000	100,000	(21,000)
Capital outlay	241,000	51,386	189,614
<b>Total expenditures</b>	<u>888,334</u>	<u>642,900</u>	<u>245,434</u>
<b>Net change in fund balances</b>	<u>\$ -</u>	<u>431,899</u>	<u>\$ 431,899</u>
Fund balances - beginning		<u>1,662,369</u>	
<b>Fund balances - ending</b>		<u><u>\$ 2,094,268</u></u>	

See accompanying notes to basic financial statements.

SUPPLEMENTARY  
AND  
OTHER INFORMATION

LAWRENCE COUNTY PUBLIC LIBRARY  
BOARD OF TRUSTEES AND ADMINISTRATIVE PERSONNEL  
JUNE 30, 2011

BOARD OF TRUSTEES

\_\_\_\_\_  
NAME

Bill Copley  
Elsie Jones  
Teresa Pigg  
William John Sparks  
Regina D. Tackett

ADMINISTRATIVE PERSONNEL

\_\_\_\_\_  
NAME

Mary McGuire

Director

LAWRENCE COUNTY PUBLIC LIBRARY  
SCHEDULE OF INSURANCE  
JUNE 30, 2011

<u>Insurance Company</u>	<u>Coverage</u>	<u>Policy Expiration</u>
Zurich	Property, Liability, and Auto	12/31/11
Seneca Insurance Company	Workers Compensation	1/22/12
Darwin Select Insurance Company	Public Officials Liability	12/31/11