



WELLS & COMPANY, P.S.C.

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

LAWRENCE COUNTY PUBLIC LIBRARY

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2013



WELLS & COMPANY, P.S.C.

Certified Public Accountants
865 South Mayo Trail, Suite 7
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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, 2013, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position—modified cash basis of the governmental activities of the Lawrence County Public Library as of June 30, 2013, and the respective changes in financial position—modified cash basis, thereof for the year then ended in accordance with the basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lawrence County Public Library's basic financial statements. The budgetary comparison schedule – modified cash basis, board of trustees and administrative personnel schedule, and the insurance schedule on pages 17 thru 19, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements.

The supplementary and other information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary and other information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2013 on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Library's internal control over financial reporting and compliance.

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
November 7, 2013

LAWRENCE COUNTY PUBLIC LIBRARY
 STATEMENT OF NET POSITION - MODIFIED CASH BASIS
 JUNE 30, 2013

	<u>Governmental Activities</u>
ASSETS	
Cash on hand	\$ 100
Cash in bank - checking	1,682,312
Cash in bank - savings	214,735
Cash in bank - money market accounts	380,116
Certificates of deposit	806,966
Investments	102,594
Capital assets:	
Land and construction-in-progress	215,552
Other capital assets, net of accumulated depreciation	<u>3,340,146</u>
Total Assets	<u>6,742,521</u>
LIABILITIES	
Accrued payroll taxes	653
Other accrued liabilities	160
Bonds payable, net of discount	-
Due within one year	<u>2,330,458</u>
Due in more than one year	<u>2,331,271</u>
Total Liabilities	<u>2,331,271</u>
NET POSITION	
Net investment in capital assets	1,225,240
Restricted for:	
Debt service	102,594
Unrestricted	<u>3,083,416</u>
Total Net Position	<u><u>\$ 4,411,250</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, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Library	\$ 477,890	\$ 13,126	\$ 150,000	\$ (314,764)
Interest on long-term debt	115,852	-	-	(115,852)
Total governmental activities	\$ 593,742	\$ 13,126	\$ 150,000	(430,616)
General revenues:				
				688,663
Property tax				28,798
Motor vehicle tax				34,240
Delinquent tax				37,564
Unmined mineral tax				269,181
Franchise tax				5,487
Telecommunications tax				1,371
Other tax				15,330
Intergovernmental revenue				11,119
Interest income				3,358
Miscellaneous				<u>1,095,111</u>
Total general revenues and transfers				664,495
Change in net position				<u>3,746,755</u>
Net position - beginning - restated				<u>\$ 4,411,250</u>
Net position - ending				<u>\$ 4,411,250</u>

See accompanying notes to basic financial statements.

LAWRENCE COUNTY PUBLIC LIBRARY
GOVERNMENTAL FUND BALANCE SHEET - MODIFIED CASH BASIS
JUNE 30, 2013

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ASSETS

Cash and cash equivalents	\$ 2,277,263
Certificates of Deposit	806,966
Investments	<u>102,594</u>
Total Assets	<u><u>\$ 3,186,823</u></u>

LIABILITIES AND FUND BALANCES

Liabilities:

Accrued state payroll taxes	\$ 653
Accrued state unemployment taxes	<u>160</u>

Total Liabilities 813

Fund Balances:

Restricted for:	
Debt service	102,594
Unassigned	<u>3,083,416</u>

Total Fund Balances 3,186,010

Total Liabilities and Fund Balances \$ 3,186,823

LAWRENCE COUNTY PUBLIC LIBRARY
RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET TO THE
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2013

Fund Balance	\$3,186,010
Amounts reported for governmental activities in the statement of net position 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	(2,355,000)
Bond discount	24,542
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Governmental capital assets	4,578,006
Less: accumulated depreciation	<u>(1,022,308)</u>
Net Position	<u><u>\$4,411,250</u></u>

See accompanying notes to basic financial statements.

LAWRENCE COUNTY PUBLIC LIBRARY
 GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Revenues:	
Taxes	\$ 1,065,304
State aid	15,330
Interest	11,119
Grants	150,000
Other revenues	16,484
	<hr/>
Total revenues	1,258,237
	<hr/>
Expenditures:	
Salaries and wages	209,033
Payroll taxes	16,663
Employee benefits	25,047
Cleaning and maintenance	14,714
Legal and professional	10,000
Newspapers, magazines, etc.	5,087
Repairs	1,603
Utilities and telephone	26,686
Bookmobile operations	4,578
Insurance	11,039
Supplies	6,352
Postage and box rent	544
Service contracts	11,182
Software	11,180
Travel	2,615
Dues and license	856
Reading programs	1,187
Miscellaneous	2,169
Capital outlay	99,921
Debt service:	
Interest expense	114,793
Principal retirement	115,000
	<hr/>
Total expenditures	690,249
	<hr/>
Net change in fund balance	567,988
	<hr/>
Fund balance - beginning	2,618,022
	<hr/>
Fund balance - ending	\$3,186,010
	<hr/>

See accompanying notes to basic financial statements.

**LAWRENCE COUNTY PUBLIC LIBRARY
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
 STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
 FOR THE YEAR ENDED JUNE 30, 2013**

Net Change in Fund Balance \$ 567,988

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 Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Also governmental funds report the effect of 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	115,000
Amortization of bond discount	(1,059)

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	99,921
Depreciation expense	<u>(117,355)</u>

Change in Net Position of Governmental Activities	<u><u>\$ 664,495</u></u>
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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The government-wide financial statements (i.e., the statement of net position 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 Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets 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 position is reported as restricted when there are limitations imposed on its use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Library applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions 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

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, 2013 are as follows:

Account	Bank Balance	Category			Carrying Amount
		1	2	3	
Cash	\$3,195,310	\$1,067,231	\$2,128,079	\$ -	\$3,186,723

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, 2013, equal to 5.33% of the retirement wages. Contributions by the Library’s employees for the year were \$20,732. The Library’s payroll for the year ended June 30, 2013 was \$209,033 including retirement wages of \$178,480.

**LAWRENCE COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3. RETIREMENT PLAN (continued)

Additional information concerning the plan can be obtained from the Kentucky Public Employees' Deferred Compensation Authority, 101 Sea Hero Rd., Suite 110, 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 modified 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, 2013, consisted of the following:

Governmental Activities	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital assets, not being depreciated:				
Land and land improvements	\$ 160,112	\$ 3,500	\$ -	\$ 163,612
Construction in progress	<u>-</u>	<u>51,940</u>	<u>-</u>	<u>51,940</u>
Total capital assets, not being depreciated	<u>160,112</u>	<u>55,440</u>	<u>-</u>	<u>215,552</u>

LAWRENCE COUNTY PUBLIC LIBRARY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2013

NOTE 8. CAPITAL ASSETS (continued)

Capital assets, being depreciated:

Buildings and improvements	3,719,868	2,575	-	3,722,443
Books	415,406	23,851	-	439,257
Furniture and equipment	<u>182,699</u>	<u>18,055</u>	<u>-</u>	<u>200,754</u>
Total capital assets being depreciated	4,317,973	44,481	-	4,362,454
Less accumulated depreciation for:				
Buildings and improvements	(411,810)	(89,973)	-	(501,783)
Books	(345,182)	(18,273)	-	(363,455)
Furniture and equipment	<u>(147,961)</u>	<u>(9,109)</u>	<u>-</u>	<u>(157,070)</u>
Total accumulated depreciation	<u>(904,953)</u>	<u>(117,355)</u>	<u>-</u>	<u>(1,022,308)</u>
Total capital assets being depreciated, net	<u>3,413,020</u>	<u>(72,874)</u>	<u>-</u>	<u>3,340,146</u>
Governmental activities capital assets, net	<u>\$3,573,132</u>	<u>\$ (17,434)</u>	<u>\$ -</u>	<u>\$3,555,698</u>

Depreciation was charged to governmental activities as follows:

Library \$ 117,355

NOTE 9. LONG-TERM DEBT

Long-term debt at June 30, 2013 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.	\$2,355,000	4.25% to 4.95%	07/2028
Less:			
Current maturities	-		
Unamortized discount	<u>24,542</u>		
	<u>\$2,330,458</u>		

LAWRENCE COUNTY PUBLIC LIBRARY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2013

NOTE 9. LONG-TERM DEBT (continued)

	<u>Amount Outstanding June 30, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding June 30, 2013</u>	<u>Amounts Due Within One Year</u>
General Obligation Bond – Series 2008	\$2,470,000	\$ -	\$(115,000)	\$2,355,000	\$ -
Long-Term Debt	<u>\$2,470,000</u>	<u>\$ -</u>	<u>\$(115,000)</u>	<u>\$2,355,000</u>	<u>\$ -</u>

Principal and interest payments to be made on all long-term debt at June 30, 2013, 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>
2014	\$ -	\$ 54,953	\$ 54,953
2015	115,000	107,461	222,461
2016	120,000	102,468	222,468
2017	125,000	97,261	222,261
2018	130,000	91,810	221,810
2019-2023	730,000	365,829	1,095,829
2024-2028	920,000	171,000	1,091,000
2029	<u>215,000</u>	<u>5,321</u>	<u>220,321</u>
	<u>\$2,355,000</u>	<u>\$ 996,103</u>	<u>\$3,351,103</u>

NOTE 10. SUBSEQUENT EVENT

Management has evaluated and has not recognized any subsequent events through November 7, 2013, the date the financial statements were available to be issued.

NOTE 11. RESTATEMENT OF PRIOR PERIOD NET POSITION

The Library implemented GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), and GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities* (GASB 65) for the fiscal year ending June 30, 2013.

Implementation of GASB 63 required the reclassification of Net Assets to Net Position and, if applicable, it also required reclassification of deferred outflows and deferred inflows into new categories called Deferred Outflows of Resources and Deferred Inflows of Resources.

Implementation of GASB 65 recognizes cost of issuance of bonds as an expense. The prior period restatement for fiscal year ended June 30, 2012 decreased both the net position and unamortized issuance costs by \$42,030.

AUDITOR'S REPORT



WELLS & COMPANY, P.S.C.

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**INDEPENDENT AUDITOR'S 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, in accordance with the 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, the financial statements of the Lawrence County Public Library, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Lawrence County Public Library's basic financial statements and have issued our report thereon dated November 7, 2013. As described in our report on the financial statements, the Library prepares its 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lawrence County Public Library's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Lawrence County Public Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in 2013-1 below, we identified a certain deficiency in internal control 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 2013-1 to be a material weakness.

2013-1 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 from 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*.

Lawrence County Public Library's Response to Findings

The Lawrence County Public Library's response to the findings identified in our audit is described above. The Lawrence County Public Library's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
November 7, 2013

SUPPLEMENTARY
AND
OTHER INFORMATION

LAWRENCE COUNTY PUBLIC LIBRARY
 BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
 GOVERNMENTAL FUND
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Taxes:				
Property tax	\$ 698,798	\$ 698,798	\$ 688,663	\$ (10,135)
Motor vehicle tax	20,000	20,000	28,798	8,798
Delinquent tax	25,000	25,000	34,240	9,240
Unmined mineral tax	26,000	26,000	37,564	11,564
Franchise tax	350,000	350,000	269,181	(80,819)
Other tax	6,633	6,633	6,858	225
State aid	13,000	13,000	15,330	2,330
Grants	150,000	150,000	150,000	-
Interest	8,000	8,000	11,119	3,119
Miscellaneous revenues	28,154	28,154	16,484	(11,670)
Total revenues	<u>1,325,585</u>	<u>1,325,585</u>	<u>1,258,237</u>	<u>(67,348)</u>
Expenditures:				
Salaries and wages	210,259	210,259	209,033	1,226
Payroll tax expense	16,793	16,793	16,663	130
Employee benefits	32,415	32,415	25,047	7,368
Cleaning and maintenance	13,000	13,000	14,714	(1,714)
Legal and professional	9,500	9,500	10,000	(500)
Newspapers, magazines, etc.	29,000	29,000	5,087	23,913
Repairs	48,000	48,000	1,603	46,397
Utilities and telephone	45,000	45,000	26,686	18,314
Bookmobile operations	14,000	14,000	4,578	9,422
Insurance	23,155	23,155	11,039	12,116
Supplies	25,000	25,000	6,352	18,648
Postage and box rent	2,313	2,313	544	1,769
Service contracts	29,000	29,000	11,182	17,818
Software	20,000	20,000	11,180	8,820
Travel	5,000	5,000	2,615	2,385
Dues and license	2,000	2,000	856	1,144
Reading programs	6,000	6,000	1,187	4,813
Miscellaneous	38,150	38,150	2,169	35,981
Debt service:				
Interest expense	114,793	114,793	114,793	-
Principal retirement	115,000	115,000	115,000	-
Capital outlay	307,000	307,000	99,921	207,079
Total expenditures	<u>1,105,378</u>	<u>1,105,378</u>	<u>690,249</u>	<u>415,129</u>
Net change in fund balance	<u>\$ 220,207</u>	<u>\$ 220,207</u>	567,988	<u>\$ 347,781</u>
Fund balance - beginning			<u>2,618,022</u>	
Fund balance - ending			<u>\$ 3,186,010</u>	

See accompanying notes to basic financial statements.

LAWRENCE COUNTY PUBLIC LIBRARY
BOARD OF TRUSTEES AND ADMINISTRATIVE PERSONNEL SCHEDULE
JUNE 30, 2013

BOARD OF TRUSTEES

NAME

Evie Burchett
Bill Copley
Bill England
Nadyne Kelly
George Oberlick

ADMINISTRATIVE PERSONNEL

NAME

Mary McGuire Director

LAWRENCE COUNTY PUBLIC LIBRARY
INSURANCE SCHEDULE
JUNE 30, 2013

<u>Insurance Company</u>	<u>Coverage</u>	<u>Policy Expiration</u>
Zurich	Property, Liability, and Auto	12/31/13
Seneca Insurance Company	Workers Compensation	1/22/14
Darwin Select Insurance Company	Public Officials Liability	12/31/13

