

Logan County Public Library

Financial Statements

June 30, 2013



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Independent Auditor's Report

Board of Trustees
Logan County Public Library
Russellville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Logan County Public Library (the "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 accounting principles generally accepted in the United States of America; this includes 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 fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Library as of June 30, 2013, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, in 2013, the Library adopted new accounting guidance, GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 7-9 and 34 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2013 on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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.

Carr, Riggs & Ingram, L.L.C.

Carr, Riggs & Ingram, LLC
Russellville, Kentucky
October 7, 2013

Required Supplementary Information

Management's Discussion and Analysis

**Logan County Public Library District
Russellville, Kentucky
Management's Discussion and Analysis
Fiscal Year July 1 2012 - June 30, 2013**

This discussion and analysis of the Logan County Public Library District (the Library) is offered by management as a narrative overview of the financial activities of the Library for the fiscal year July 1, 2012 – June 30, 2013. This information should be considered in conjunction with the Library's financial statements, notes to financial statements, and additional information contained in the audit.

The Logan County Public Library District was established in November, 1965 by public petition. The Library is governed by a five-member Board of Trustees which is solely responsible for managing the Library's assets and approval of policies. The Library Director is solely responsible for library operation and interpretation of library policy.

The primary source of Library income is property and other local taxes. Approximately 2% of the budget is from State Aid. Less than 1% of the budget comes from federal funds. Unless the library receives a federal grant it receives no federal funds.

FINANCIAL HIGHLIGHTS

- Total net position increased \$599,109. The liability for accrued compensated absences (that which would be owed staff if the library closed on June 30, 2013) were \$9,120. Beginning general fund balance for July 1, 2012 (beginning of current fiscal year) was \$717,619. The ending general fund balance was \$873,079, with an increase of \$155,460 for 2012-13.
- Sources of general revenues for the Library include property tax (\$1,117,049), State Aid (\$18,710), Federal Aid (\$8,792), Gifts (\$505,434), Interest Income (\$5,617) and Charges for Services (\$26,722). Charges for services includes late fees for overdue library materials, photocopying charges, fees for facsimile transmittal services, gifts and donations, and sale of surplus property (used and discarded library materials). Total revenue for the fiscal year totaled \$1,682,324.
- Total expenses for the fiscal year were \$2,761,999.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Library's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the Library's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination of reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Position. This is the government-wide statement of position presenting information that includes all the Library's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position

may serve as a useful indicator of whether the financial position of the Library as a whole is improving or deteriorating. Evaluation of the overall economic health of the Library would extend to other non-financial factors such as diversification of the taxpayer base or the condition of Library infrastructure in addition to the financial information provided in this report.

The second of these government-wide statements is the Statement of Activities which reports how the Library's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the Library's distinct activities or functions on revenues provided by the Library's taxpayers.

Both government-wide financial statements distinguish governmental activities of the Library that are principally supported by taxes and intergovernmental revenues, such as grants, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges.

The Library's financial reporting includes the funds of the Library (primary government) and organizations, if any for which the Library is accountable (component units). Most of these legally separate organizations operate like Library departments, serve as financing vehicles for library services (revenue bond issues, or are governed by a board of trustees wholly comprised of the Library's direct and board members. The component unit issued bonds in the amount of \$2,940,000 as of November 20, 2012.

FUND FINANCIAL STATEMENTS

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Library uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the Library's most significant funds rather than the Library as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. The major funds for the Library are the general fund and the construction fund.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

FINANCIAL ANALYSIS OF THE LIBRARY'S FUNDS

As discussed, governmental funds are reported in the fund statements with a short-term inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financial requirements. Governmental funds reported ending fund balances of \$2,526,975. \$77,501 of these funds is unassigned, indicating availability of continuing Library service requirements. The remaining \$1,653,896 is committed and restricted for the ongoing building project. The total ending fund balances of governmental funds show an increase of \$1,809,356 from the previous year.

CAPITAL ASSETS

Expenditures capitalized for the year in the Statement of Net Position amounted to \$1,792,616. These capitalized expenditures were for books, videos, computers and the construction in progress of the new library. Disposals of books, videos and computers amounted to \$118,420. Net book value of assets at June 30, 2013 is \$2,305,418, and increase from 2012 of \$1,686,915.

LONG TERM DEBT

At year-end the Library had \$2,940,000 in general obligation bonds outstanding for the construction of the new library facility.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund budget for fiscal year 2012-2013 was \$1,102,600. Due to position changes in the library administration, there was an atypical growth in salary expenditures, with an increase in salaries of \$9,640. Increases in health insurance and retirement contributions resulted in an increase of \$3,919 for fringe benefits. The main library building deterioration continues to be a budgetary issue. Building repair and maintenance costs were \$3,033. The General Fund budget complies with financial policies approved by the Board of Trustees for the maintenance of core Library services.

ECONOMIC ENVIRONMENT AND NEXT YEAR'S BUDGETS TO RATES

The general outlook for the Library for the next year is for continued moderate growth which is due to increasing population producing an improvement over the current fiscal year. In general, any major swings in the overall economy have a smaller effect on the Library due to the diversity of the local economy.

CONTACTING THE LIBRARY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Library's finances, comply with finance-related laws and regulations, and demonstrate the Library's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the Director, Logan County Public Library, 201 West Sixth Street, Russellville, Kentucky 42276.

Basic Financial Statements

Logan County Public Library
Statement of Net Position

June 30,	2013
	Governmental Activities
Assets	
Cash	\$ 2,298,120
Investments	704,763
Accounts receivable	3,973
Capital assets, net of depreciation	2,305,418
Total assets	5,312,274
Liabilities	
Accounts payable	440,591
Compensated absences	9,120
Accrued liabilities	22,071
Unearned revenue	8,099
Accrued interest	6,873
Long-term obligations	
Due within one year	
Outstanding bonds	70,000
Due beyond one year	
Outstanding bonds	2,820,164
Total liabilities	3,376,918
Net Position	
Invested in capital assets, net of related debt	635,195
Restricted for capital outlay	433,955
Unrestricted	866,206
Total Net Position	\$ 1,935,356

The accompanying notes are an integral part of these financial statements.

Logan County Public Library
Statement of Activities

Year Ended June 30, 2013	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental Activities					
Personnel	\$ 547,593	\$ -	\$ 3,826	\$ -	\$ (543,767)
Fringe benefits	178,372	-	-	-	(178,372)
General operations	87,134	26,722	4,966	-	(55,446)
Library materials	26,670	-	-	-	(26,670)
Continuing education	3,784	-	-	-	(3,784)
Electronic access	15,929	-	-	-	(15,929)
Bookmobile expense	1,261	-	-	-	(1,261)
Depreciation expense-unallocated	105,701	-	-	-	(105,701)
Capital outlay	-	-	-	505,434	505,434
Loss on disposal of equipment	125	-	-	-	(125)
Bond issuance cost	65,700	-	-	-	(65,700)
Interest expense	50,946	-	-	-	(50,946)
Total Governmental Activities	\$ 1,083,215	\$ 26,722	\$ 8,792	\$ 505,434	(542,267)

General Revenues	
Property taxes	1,117,049
State aid	18,710
Interest income	5,617
Total general revenues	1,141,376
Change in Net Position	599,109
Net Position - Beginning of Year	1,336,247
Net Position - End of Year	\$ 1,935,356

The accompanying notes are an integral part of these financial statements.

Logan County Public Library
Balance Sheet
Governmental Funds

June 30, 2013	General Fund	Construction Fund	Total Governmental Funds
Assets			
Cash	\$ 212,351	\$ 2,085,769	\$ 2,298,120
Investments	704,763	-	704,763
Accounts receivable	3,973	-	3,973
Total Assets	\$ 921,087	\$ 2,085,769	\$ 3,006,856
Liabilities and Fund Balance			
Liabilities			
Accounts payable	\$ 8,718	\$ 431,873	\$ 440,591
Compensated absences	9,120	-	9,120
Accrued liabilities	22,071	-	22,071
Unearned revenue	8,099	-	8,099
Total liabilities	48,008	431,873	479,881
Fund Balance			
Restricted	-	1,653,896	1,653,896
Committed	795,578	-	795,578
Unassigned	77,501	-	77,501
Total fund balance	873,079	1,653,896	2,526,975
Total Liabilities and Fund Balance	\$ 921,087	\$ 2,085,769	\$ 3,006,856

The accompanying notes are an integral part of these financial statements.

Logan County Public Library
 Reconciliation of the Governmental Funds
 Balance Sheet to the Statement of Net Position

Year Ended June 30,	2013
Total Fund Balances - Governmental Funds	\$ 2,526,975
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The cost of the assets is \$2,996,006, and the accumulated depreciation is \$690,588.</p>	2,305,418
<p>Long-term liabilities, including bonds payable and accrued interest, are not due and payable in the current period and, therefore, are not reported as liabilities in governmental funds. Long-term liabilities at year-end consist of:</p>	
Bonds payable	(2,890,164)
Accrued interest on outstanding bonds	(6,873)
Total Net Position - Governmental Activities	\$ 1,935,356

The accompanying notes are an integral part of these financial statements.

Logan County Public Library
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds

Year Ended June 30, 2013	General Fund	Construction Fund	Total Governmental Funds
Revenues			
Property taxes	\$ 1,117,049	\$ -	\$ 1,117,049
Intergovernmental - state	18,710	-	18,710
Intergovernmental - federal	8,792	-	8,792
Contributions	5,434	500,000	505,434
Fines, copies and faxes	20,219	-	20,219
Book sales	4,716	-	4,716
Interest income	4,832	785	5,617
Other income	1,787	-	1,787
Total revenues	1,181,539	500,785	1,682,324
Expenditures			
Personnel	547,593	-	547,593
Fringe benefits	178,372	-	178,372
Capital outlay	37,635	1,670,220	1,707,855
General operations	97,792	-	97,792
Library materials	98,869	-	98,869
Continuing education	3,784	-	3,784
Electronic access	17,833	-	17,833
Bookmobile	1,261	-	1,261
Debt service: interest	42,940	-	42,940
Bond issuance cost	-	65,700	65,700
Total expenditures	1,026,079	1,735,920	2,761,999
Other Financing Sources (Uses)			
Bond proceeds - net of discount	-	2,889,031	2,889,031
Total other financing sources (uses)	-	2,889,031	2,889,031
Net Change in Fund Balance	155,460	1,653,896	1,809,356
Fund Balance - Beginning of Year	717,619	-	717,619
Fund Balance - End of Year	\$ 873,079	\$ 1,653,896	\$ 2,526,975

The accompanying notes are an integral part of these financial statements.

Logan County Public Library
**Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balance to the Statement of Activities**

Year Ended June 30,	2013
Amounts reported for governmental activities in the statement of net position are different because:	
Net change in fund balance	\$ 1,809,356
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$1,792,616) exceeds depreciation expense (\$105,701).	1,686,915
Gains and losses are not presented in governmental funds because they do not provide or use current financial resources. However, they are presented on the statement of activities. The difference between proceeds from the sale of assets and the actual gain/loss from the sale net to this amount for the year.	(125)
The issuance of bonds provides current financial resources and is reported in the fund financial statements but it is presented as a liability in the statement of net position.	(2,889,031)
Expenditures reported in the fund financial statements are recognized when the current financial resource is used. However, expenses in the statement of activities are recognized when they are incurred.	(8,006)
Change in Net Position of Governmental Activities	\$ 599,109

The accompanying notes are an integral part of these financial statements.

Note 1: Summary of Significant Accounting Policies

• General Statement

The Logan County Public Library (the “Library”) was created by petition in 1966 under the provisions of KRS 173.710 to 173.800 as a special taxing district. The mission of the Logan County Public Library is service to all people. This encompasses individuals and groups of every age, education, philosophy, occupation, economic level, ethnic origin and human condition. Fulfilling the educational, informational and recreational needs of these people is the Logan County Public Library’s broad purpose. More specifically, it helps people to keep up with change in all areas, educate themselves continually, become better members of their family and community, become socially and politically aware, be more capable in their occupations, develop their creative abilities and spiritual capacities, appreciate and enjoy literature and art, contribute to the overall expanse of knowledge and stimulate their own personal social well-being.

• Reporting Entity

The Board of the Logan County Public Library (the “Board”), a five member group, is the level of government which has oversight responsibilities over all activities related to the public lending of materials within Logan County. The Library receives funding from local and state government sources and must comply with the commitment requirements of these funding source entities. However, the Library is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are nominated by the Board and approved by Logan County Fiscal Court (the “Fiscal Court”). The Fiscal Court’s authority is not substantive and is limited by a nomination process. The Library is a legally separate organization that can sue and be sued in their own name. The Board has decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The financial statements of the Library include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included as a blended component unit in the accompanying financial statements:

Logan County Public Library District Property Corporation — The Logan County Public Library resolved to authorize the establishment of the Logan County Public Library District Property Corporation (a non-profit, non-stock, public and

Note 1: Summary of Significant Accounting Policies
(Continued)

charitable corporation) as an agency of the Library for financing the costs of building improvements. The Board members of the Logan County Public Library also comprise the Corporation's Board of Trustees.

● ***Basis of Presentation***

Government-wide Financial Statements — The statement of net position and the statement of activities display information about the Library as a whole. These statements include the financial activities of the Library. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions.

These statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the Library's assets and liabilities, including capital assets, as well as long-term liabilities, are included in the accompanying statement of net position. The statement of activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the Library are reported in three categories: 1) charges for services, 2) operating grants and contributions and 3) capital grants and contributions. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents the comparison between direct expenses of a given function or segment and are offset by program revenues. Direct expenses are those that are specifically associated with a service, program or department and are, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues. Revenues that are not classified as program revenues are presented as general revenues of the Library, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Library.

Fund Financial Statements — Fund financial statements report detailed information about the Library's funds. Separate statements for each fund category—governmental

Note 1: Summary of Significant Accounting Policies
(Continued)

funds are presented. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total fund balances.

Governmental fund balances are classified as nonspendable, restricted, committed, assigned and unassigned. Information concerning the Library's fund balances can be found in Note 6.

The Library has the following funds:

▶ **Governmental Fund Types**

The *General Fund* is the primary operating fund of the Library. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unassigned fund balance is considered as resources available for use. The general fund is a major fund.

Capital Projects Funds are used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations or other governments

The *Construction Fund* accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. The construction fund is a major fund.

Note 1: Summary of Significant Accounting Policies
(Continued)

• ***Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

• ***Budget***

The Library adopts an annual budget for the General Fund. The budget is prepared on the cash basis, a comprehensive basis of accounting other than GAAP. The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized and recorded when received in cash and when paid, respectively. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting on the governmental fund statements and on the full accrual basis on the government-wide statements. A reconciliation of the cash basis actual amounts in the budgetary comparison to the GAAP basis actual amounts in the fund and government-wide statements is shown at the bottom of the budgetary comparison schedule if significant variances exist. The amended budget amounts presented in the accompanying financial statements have been adjusted for authorized amendments of the annual budget adopted by the Library Board. All appropriations lapse at year end.

• ***Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

• ***Investments***

Investments are reported at cost, which approximates fair value. Investments consist of short-term certificates of deposit.

Note 1: Summary of Significant Accounting Policies
(Continued)

• **Capital Assets**

Capital assets, including property and equipment, are reported in the government-wide financial statements. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Library maintains a capitalization threshold of \$1,000. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. The Library does not possess any infrastructure. The Library depreciates capital assets over the estimated useful life of the asset using the straight-line method of depreciation as follows:

Description	Estimated Lives
Leasehold improvements.....	15 years
Furniture and equipment.....	10 years
Technology equipment.....	5 years
Vehicles.....	10 years
Books	7 years
Software	3 years

• **Property Taxes**

Property taxes collected are recorded as revenues in the general fund. The assessment date of the property taxes is January 1 of each year. The final levy is normally approved September 1 through September 15. Assuming property tax bills are timely mailed, the collection date is the period from September 15 through December 31. Collections from the period September 15 through November 1 receive a two percent discount. The due date is the period from November 2 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien being filed by the County Attorney.

• **Unearned Revenue**

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

Note 1: Summary of Significant Accounting Policies
(Continued)

• ***Compensated Absences***

Compensated absences are those absences for which employees will be paid, such as vacation days. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the Library and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the Library and its employees are accounted for in the period in which such services are rendered or in which such events take place.

The entire compensated absence liability is reported on the government-wide financial statements and fund statements.

• ***Accrued Liabilities and Long-Term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds.

• ***Net Position***

The Library classifies its net position into the following three categories:

Invested in capital assets - This represents the Library's total investment in capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position.

Restricted - The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

Note 1: Summary of Significant Accounting Policies
(Continued)

Unrestricted - The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Library's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

● **Revenues — Exchange and Nonexchange Transactions**

Revenues resulting from exchange transactions are where each party receives equal value. On the modified accrual basis of accounting, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Library, available means expected to be received within 60 days of the fiscal year-end.

Non-exchange transactions, in which the Library receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the Library, an enforceable legal claim arises after the period for which taxes are levied. Property taxes receivable are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September.

On the modified accrual basis, assets and revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements in which the Library must provide local resources to be used for a specified purpose and expenditure requirements in which the resources are provided to the Library on a reimbursement basis. Revenues from nonexchange transactions must also be available before they can be recognized.

● **Subsequent Events**

The Library has evaluated any recognized or unrecognized subsequent events for consideration in the accompanying financial statements through October 7, 2013, which was the date the financial statements were made available.

Note 1: Summary of Significant Accounting Policies
(Continued)

• ***New Accounting Standards Adopted***

In fiscal year 2013, the Library adopted three new accounting standards as follows:

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62), incorporates into GASB's authoritative literature certain accounting and financial reporting guidance included in FASB pronouncements, which do not conflict with or contradict GASB pronouncements, and eliminates the criteria to apply post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), establishes a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 in the Library's financial statements was the renaming of "Net Assets" to "Net Position", including changing the name of the financial statement from "Statement of Net Assets" to "Statement of Net Position".

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources (expenses) or inflows of resources (revenues). The implementation of GASB 65 had no effect on beginning net position / fund balance.

Note 2: Cash and Investments

At June 30, 2013, the carrying amount of the Library’s deposits (cash and investments) was \$3,002,436 and bank balances were \$3,043,210. The Library maintains its deposits with financial institutions insured by federal depository insurance (FDIC) or are secured by pledged securities held by the pledging financial institution’s agent in the Library’s name. As of June 30, 2013, \$454,763 was uninsured and uncollateralized.

▶ *Custodial Credit Risk-Deposits*

Custodial credit risk is the risk that, in the event of a bank failure, the Library’s deposits may not be returned to it. The Library does not have a formal deposit policy for custodial credit risk. However, the Library is required by state statute that bank deposits must be collateralized. The Library’s bank balance of \$3,043,210 was exposed to \$454,763 of a custodial credit risk as of June 30, 2013.

● **Investments**

The Library’s investments, which are stated at cost, at June 30, 2013 are as follow:

June 30, 2013			
Investment	Rating	Maturities	Fair Value
CD	N/R	11/20/2013	\$ 250,620
CD	N/R	11/20/2013	250,620
CD	N/R	5/9/2014	203,523
Total			\$ 704,763

▶ *Interest Rate Risk*

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

▶ *Credit Risk*

Under Kentucky Revised Statutes Section 66.480, the Library is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit

Logan County Public Library
Notes to the Financial Statements (Continued)

Note 2: Cash and Investments (Continued)

of the United States or of its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and securities in mutual funds shall be eligible investments pursuant to this section. The Library has no investment policy that would further limit its investment choices.

Note 3: Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

June 30, 2013	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental Activities:				
Capital assets that are not depreciated:				
Land	\$ 139,692	\$ -	\$ -	\$ 139,692
Construction in Progress	173,475	1,701,170	-	1,874,645
Total non-depreciable cost	313,167	1,701,170	-	2,014,337
Capital assets that are depreciated:				
Leasehold improvements	8,917	3,655	-	12,572
Equipment	32,869	-	-	32,869
Furniture	33,128	-	-	33,128
Computers	69,068	15,592	(9,238)	75,422
General	16,064	-	-	16,064
Vehicles	8,500	-	-	8,500
Collection	840,222	72,199	(109,307)	803,114
Total depreciable cost	1,008,768	91,446	(118,545)	981,669
Less: accumulated depreciation	(703,307)	(105,701)	118,420	(690,588)
Total depreciable cost, net	305,461	(14,255)	(125)	291,081
Governmental Activities				
Capital Assets-Net	\$ 618,628	\$ 1,686,915	\$ (125)	\$ 2,305,418

Note 4: Compensated Absences

Employees are allowed to accrue vacation hours, which are vested up to 42 hours. Accordingly, the employees can be paid for unused vacation days upon termination of employment up to 42 hours.

Note 4: Compensated Absences *(Continued)*

A liability for accumulated vacation hours is accrued when incurred in the government-wide financial statements and fund statements.

The amount accrued in the government-wide and fund financial statements is \$9,120 at June 30, 2013.

Note 5: Long-Term Obligations

The original amount of each issue, the issue date and interest rates are summarized below:

Issue Date	Proceeds	Rates
2012	\$ 2,940,000	.70%–3.50%

On November 20, 2012, \$2,940,000 in General Obligation Bonds with an average interest rate of 3.21% was issued to construct a new library facility.

Year	Principal	Interest	Total Debt Service
2014	\$ 70,000	\$ 82,228	\$ 152,228
2015	70,000	81,739	151,739
2016	70,000	81,179	151,179
2017	70,000	80,549	150,549
2018	70,000	79,814	149,814
2019-2023	380,000	382,670	762,670
2024-2028	430,000	333,470	763,470
2029-2033	495,000	262,131	757,131
2034-2038	585,000	173,040	758,040
2039-2043	700,000	62,998	762,998
	\$ 2,940,000	\$ 1,619,818	\$ 4,559,818

5300.10

Note 5: Long-Term Obligations (Continued)

The Library is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Logan County Public Library District Property Corporation to construct facilities. The Library has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

Long-term liability activity for the year ended June 30, 2013 was as follows:

June 30, 2013	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013	Amounts Due Within One Year
Governmental Activities:					
Bonds and notes payable:					
Bonds	\$ -	\$ 2,940,000	\$ -	\$ 2,940,000	\$ 70,000
Less deferred issuance discounts	-	(50,969)	1,133	(49,836)	-
Total bonds and notes payable	-	\$ 2,889,031	\$ 1,133	\$ 2,890,164	\$ 70,000

Note 6: Fund Balances

The five categories of fund balances are as follow:

Nonspendable fund balances are amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact. At June 30, 2013, the Library had no nonspendable fund balances.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2013, the Library had \$1,653,896 as restricted funds for capital projects in the construction fund.

Note 6: Fund Balances *(Continued)*

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which for the Library is the Board of Trustees. The Board of Trustees must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment.

The Library had the following commitments at June 30, 2013: \$795,578 for future construction.

Assigned fund balances are amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Trustees allows program supervisors to complete purchase orders which result in the encumbrance of funds. The amount assigned related to encumbrances at June 30, 2013 was \$0. Assigned fund balances also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund.

It is the Library's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board or managerial obligations using restricted funds first, followed by committed funds, assigned funds and then unassigned funds. Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically rebudgeted in the following fiscal year. Encumbrances are considered a managerial assignment of fund balance at June 30, 2013 in the governmental funds balance sheet.

Note 7: Employees' Retirement Plan

The Library participates in a statewide, cost-sharing, multiple-employer, public employers' defined benefit pension plan on behalf of Library employees. The plan, created under Kentucky Revised Statute (KRS) 78.520, provides for retirement, disability and death benefits to plan members. Under the provision of KRS 61.565, the

Note 7: Employees' Retirement Plan*(Continued)*

plan is administered by the Board of Trustees of Kentucky Retirement Systems and funded by contributions from participants and employers and by investment earnings. The CERS issues a publicly available financial report that includes financial statements and required supplementary information. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

• ***Plan Descriptions, Contribution Information and Funding Policies***

Kentucky Retirement Systems County Employees' Retirement System Non-Hazardous Employees Pension Plan (CERS)

All regular full-time employees in a non-hazardous position of duty are eligible to participate in CERS. The plan provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the State legislature.

Participants have a vested right to retirement benefits at age 65 with a least four years of service or at any age with at least 27 years of service, if they do not withdraw deposits. A member may receive a reduced standard annuity at age 55 with five or more years of service or any age below 55 with 25 or more years of service. Benefits under CERS will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Non-hazardous duty employees were required to contribute 5% (6.0% for new hires effective July 1, 2008) of their annual creditable compensation, which is withheld by the Library. The Library was required to contribute at an actuarially determined rate. The rate was 19.55%, 18.96% and 16.93% for the years ended June 30, 2013, 2012 and 2011, respectively, of participating non-hazardous duty employee's annual creditable compensation. Normal contributions and past service contribution rates are determined in accordance with KRS 61.565(3) on the basis of an annual valuation. The Library's contributions to CERS for the years ended June 30, 2013, 2012 and 2011 were \$84,066, \$78,072 and \$69,323, respectively, equal to the required contributions for each year.

Note 8: Contingencies

The Library receives funding from state agencies, non-public grants and private donations. These funds may be required to be used for designated purposes. If the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced. The amount of such future refunds, if any, is not expected to be significant. Continuation of the Library's grant program is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

In 2012, lawsuits were filed against some Kentucky libraries contending the libraries had not followed applicable laws in establishing tax rates. The law in question is used primarily by Kentucky libraries in setting annual tax rates. Some circuit courts have favored with the plaintiffs that the libraries had improperly raised taxes over time. The libraries plan to appeal the courts' decisions. The Kentucky Library Association has been engaged to assist in the defense of Kentucky libraries. Should the decision be upheld, the ruling could have a significant impact on Kentucky libraries' operations. At this time, it is uncertain of the ultimate impact, if any, of these lawsuits on the Logan County Library's operations.

Note 9: Insurance and Related Activities

The Library is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, etc. Each of these risk areas are covered through the purchase of commercial insurance. The Library has purchased certain policies which are retrospectively rated which include workers' compensation insurance.

Note 10: Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for worker's compensation, unemployment insurance, errors and omissions, property and general liability coverage, the Library participates in the Kentucky Association of Counties (KACo) Insurance Fund. This public entity risk pool operates as a common risk management and insurance program for political subdivisions in the State of Kentucky. The Library, along with other participating

Note 10: Risk Management *(Continued)*

entities, contributes annual premiums determined by KACo. The amount of the premium is based on actuarial evaluations, rating plans and other analyses of the amounts necessary for the payment of claims. If, in the opinion of KACo's Board, the assets of the Fund are insufficient to enable the Fund to discharge its legal liabilities and other obligations and to maintain required reserves, the Fund's Board may require certain participating members to contribute supplementary contributions. The Library is not aware of any additional assessments payable to the Fund to cover claims. The Library's claims are submitted to and paid by KACo. There were no significant reductions in insurance coverage from the prior year. Settled claims resulting from these risks have not exceeded the insurance coverage in any of the past three years.

Required Supplementary Information

Logan County Public Library
Budgetary Comparison Schedule for the General Fund

Year Ended June 30, 2013

	Budgeted amounts		Actual	Variances Favorable (Unfavorable)
	Original	Final		
Revenues				
Property taxes	\$ 1,035,000	\$ 1,035,000	\$ 1,117,049	\$ 82,049
Intergovernmental - state	20,800	20,800	18,710	(2,090)
Intergovernmental - federal	-	-	8,792	8,792
Contributions	-	-	5,434	5,434
Fines, copies and faxes	-	-	20,219	20,219
Book sales	-	-	4,716	4,716
Interest income	-	-	4,832	4,832
Other income	46,800	46,800	1,787	(45,013)
Total revenues	1,102,600	1,102,600	1,181,539	78,939
Expenditures				
Personnel	530,000	530,000	547,593	(17,593)
Fringe benefits	184,796	184,796	178,372	6,424
General operations	85,500	85,500	97,792	(12,292)
Library materials	80,000	80,000	98,869	(18,869)
Continuing education	2,120	2,120	3,784	(1,664)
Electronic access	23,000	23,000	17,833	5,167
Bookmobile expense	500	500	1,261	(761)
Capital outlay	11,880	11,880	37,635	(25,755)
Debt service: interest	180,000	180,000	42,940	137,060
Contingency	4,804	4,804	-	4,804
Total expenditures	1,102,600	1,102,600	1,026,079	76,521
Net Change in Fund Balance	-	-	155,460	155,460
Fund Balance - Beginning of Year	-	-	717,619	717,619
Fund Balance - End of Year	\$ -	\$ -	\$ 873,079	\$ 873,079



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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***

To the Board of Trustees
Logan County Public Library
Russellville, 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 governmental activities and each major fund of the Logan County Public Library (the "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 and have issued our report thereon dated October 7, 2013.

• **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

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 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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did not identify any deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies 2013-01.

- **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and responses as item 2013-01.

- **Library's Response to Findings**

The Library's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The 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.

Carr, Riggs & Ingram, L.L.C.

Carr, Riggs & Ingram, LLC
Russellville, Kentucky
October 7, 2013

• **2013-01 Deposits**

Criteria: In our audit procedures, we noted the Library does not monitor the sufficiency of pledged securities by financial institutions on collateralization of the Library's deposits. Kentucky Revised Statutes requires the Library's cash deposits in excess of FDIC insurance to be collateralized.

Cause: The Library's internal control system does not provide for a method of tracking the adequacy of the value of securities pledged by financial institutions to collateralize the Library's deposits and investments in excess of FDIC insurance limits.

Effect: In the event of a financial institution failure, the Library's deposits may not be returned. This is a custodial credit risk for the Library. The Library had uninsured and uncollateralized deposits of \$454,763 at June 30, 2013.

Auditor Recommendation: We recommend that management establish a system to monitor the sufficiency of collateral pledges no less frequently than monthly.

Views of Responsible Officials and Planned Corrective Actions: The above amount has since been properly collateralized and the library is creating procedures to prevent any future occurrences of this type of issue.