

BOYD COUNTY PUBLIC LIBRARY DISTRICT

FINANCIAL STATEMENT

FOR THE YEAR ENDED JUNE 30, 2011

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT



**Kelley,
Galloway &
Company, PSC**

CERTIFIED PUBLIC ACCOUNTANTS

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Kelley,
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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
Boyd County Public Library District
Ashland, Kentucky 41101

We have audited the accompanying statement of receipts, disbursements and cash balances - regulatory basis of Boyd County Public Library District (the "Library") for the year ended June 30, 2011. This financial statement is the responsibility of the Library's management. Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statement was prepared in conformity with the accounting practices prescribed or permitted by the Kentucky Department for Libraries and Archives, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements and cash balances of Boyd County Public Library District for the year ended June 30, 2011, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2011, on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Library Board has not presented a Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statement.

The budgetary comparison information on page 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees and management of the Boyd County Public Library District and the Kentucky Department for Libraries and Archives, and is not intended to be, and should not be used by anyone other than these specified parties.

Kelley, Dalloway & Company, PSC

November 9, 2011

BOYD COUNTY PUBLIC LIBRARY DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CASH BALANCES - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011

| RECEIPTS: | <u>General Fund</u> | <u>Building Fund</u> | <u>Total</u> |
|---|-------------------------|--------------------------|-------------------------|
| Property taxes - | | | |
| Boyd County sheriff | \$ 3,033,274 | \$ - | \$ 3,033,274 |
| Boyd County clerk | 295,574 | - | 295,574 |
| Kentucky Revenue Cabinet | 187,139 | - | 187,139 |
| Kentucky telecommunications tax | 46,127 | - | 46,127 |
| Contributions and gifts | 8,067 | - | 8,067 |
| State aid/grants | 30,951 | - | 30,951 |
| Interest and dividend income | 28,518 | 779 | 29,297 |
| Fines | 37,139 | - | 37,139 |
| Copier and other fees | 14,417 | - | 14,417 |
| Other receipts | 42,653 | - | 42,653 |
| Total receipts | <u>3,723,859</u> | <u>779</u> | <u>3,724,638</u> |
| DISBURSEMENTS: | | | |
| Salaries and related benefits | 1,350,277 | - | 1,350,277 |
| Library materials | 484,398 | - | 484,398 |
| Building improvements and repairs | 225,238 | - | 225,238 |
| Technology | 237,312 | - | 237,312 |
| Software/upgrades | 15,507 | - | 15,507 |
| Postage | 30,875 | - | 30,875 |
| Service contracts | 135,375 | - | 135,375 |
| Utilities | 128,579 | - | 128,579 |
| Lease expense | 16,500 | - | 16,500 |
| Office supplies | 118,409 | - | 118,409 |
| Equipment purchases | 306,288 | - | 306,288 |
| Outside services | 33,011 | - | 33,011 |
| Staff education and travel | 29,909 | - | 29,909 |
| Insurance | 22,098 | - | 22,098 |
| Public relations | 41,752 | - | 41,752 |
| Programming | 30,451 | - | 30,451 |
| Miscellaneous | 57,804 | - | 57,804 |
| Total disbursements | <u>3,263,783</u> | <u>-</u> | <u>3,263,783</u> |
| EXCESS OF RECEIPTS OVER DISBURSEMENTS | 460,076 | 779 | 460,855 |
| CASH AND INVESTMENTS - BEGINNING OF YEAR | <u>4,880,071</u> | <u>54,267</u> | <u>4,934,338</u> |
| CASH AND INVESTMENTS - END OF YEAR | <u>\$ 5,340,147</u> | <u>\$ 55,046</u> | <u>\$ 5,395,193</u> |

The accompanying notes to financial statement
are an integral part of this statement.

BOYD COUNTY PUBLIC LIBRARY DISTRICT

NOTES TO FINANCIAL STATEMENT

JUNE 30, 2011

(1) NATURE OF ORGANIZATION

The Boyd County Public Library District was organized June 3, 1981 in accordance with section 173.720 of the Kentucky Revised Statutes (KRS). The Library provides library services to the citizens of Boyd County, Kentucky and surrounding areas. The Library's major sources of funding are a 14.90 cents per hundred assessed valuation of real property, 18.36 cents per hundred assessed valuation of personal property, and 4.60 cents per hundred assessed valuation of motor vehicles property tax rates levied on property in Boyd County, Kentucky.

A summary of more significant accounting policies of the Library are as follows:

Fund Accounting

The Library uses funds to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Basis of Accounting

In accordance with KRS 173.770, the Library maintains its accounting records and prepares its financial statements on the basis of cash receipts and disbursements. Consequently, revenues are recognized when received rather than when earned and expenses are recognized when paid rather than when obligations are incurred. Therefore, receivables, investments at fair market value, and payables, accrued income and expenses, and property, buildings, equipment and the related depreciation which may be material in amount, are not reflected in the financial statement. Accordingly, the statement of receipts, disbursements and cash balances - regulatory basis is not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States.

Investments

Investments are reported on the cost basis. Since all investments were donated to the Library, they have a zero cost basis. No unrealized gains or losses are included in the Statement of Receipts, Disbursements and Cash Balances - Regulatory Basis in accordance with the regulatory basis of accounting.

Income Taxes

The Library qualifies as a local government taxing district and therefore is exempt from federal and state income taxes.

Budgeting

The Library prepares an annual budget as required by the Kentucky Revised Statutes in establishing budgetary data reflected in the financial statement. The Library's budget is approved by the Board of Trustees.

(2) CASH BALANCES

The cash balances at June 30, 2011 consisted of the following:

| | | | |
|-------------------------------|----|------------------|------------------|
| Cash on hand | \$ | 100 | |
| Checking/repurchase agreement | | 4,328,525 | |
| Certificates of deposit | | <u>1,011,522</u> | |
| Total general fund cash | \$ | | <u>5,340,147</u> |
| Certificate of deposit | | <u>55,046</u> | |
| Total building fund cash | | | <u>55,046</u> |
| Total cash | \$ | | <u>5,395,193</u> |

(3) INVESTMENTS

A summary of investments at June 30, 2011 is as follows:

| | <u>Cost</u> | <u>Fair Market Value</u> | <u>Unrealized Gain (Loss)</u> |
|----------|-------------|--------------------------|-------------------------------|
| Equities | <u>\$ -</u> | <u>\$ 38,978</u> | <u>\$ 38,978</u> |

Investment return included in the financial statements is summarized as follows:

| | | |
|-----------------------------------|----|--------------|
| Dividend income | \$ | 632 |
| Proceeds from sale of investments | | <u>7,447</u> |
| | \$ | <u>8,079</u> |

(4) PENSION PLAN

County Employees Retirement System

The Library participates in the County Employees Retirement System ("CERS"). CERS is a cost-sharing, multiple-employer, defined benefit plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by calling (502) 696-8800.

Funding for CERS is provided by members who contribute 5% of their salary through payroll deductions and by employers of members who contribute 16.93% of the member's salary. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees. The Library's contributions to CERS for the year ending June 30, 2011, were \$126,372, equal to the required contributions for the year.

(5) CONCENTRATION OF CREDIT RISK

The Library maintains cash balances at several local financial institutions. Non-interest bearing transaction accounts at all Federal Deposit Insurance Corporation (FDIC) – insured depository institutions currently have unlimited coverage. All time and savings accounts at each institution are insured by the FDIC up to \$250,000. At June 30, 2011, additional security was pledged by one financial institution to collateralize deposits in excess of the FDIC insured amount. At June 30, 2011, the carrying amount of the Library's deposits with local banks was \$5,395,093 and the bank balance was \$5,385,453. Of the bank balances, \$7,375 was uncollateralized. The Bank balance is categorized as follows:

| | |
|-------------------------------|---------------------|
| Amount insured by FDIC | \$ 1,378,078 |
| Additional pledged securities | 4,000,000 |
| Uncollateralized | <u>7,375</u> |
| Total | <u>\$ 5,385,453</u> |

(6) COMMITTED ASSETS

Funds classified as *committed* cannot be used for any other purpose unless the Board of Directors takes the action to remove or change the existing constraint. Certain funds totaling \$1,011,522 represent amounts committed to be held in reserve as the Library strives to maintain at least six months of expenses on hand with an ultimate goal of twelve months. Also, funds totaling \$55,046 represent amounts committed to be used for building improvements and repairs.

(7) RENTALS UNDER OPERATING LEASE

The Library's leasing operations consist of the leasing of space at the Kyova Tri-State Mall under an operating lease. The Library recognizes the expenses related to the obligation as lease payments are made. Total rent expenses under the operating type lease were \$16,500.

The amount of future minimum rental payments under the current lease (not including renewals) are as follows:

| <u>Year Ending June 30,</u> | <u>Total</u> |
|-----------------------------|-------------------|
| 2012 | \$ 18,000 |
| 2013 | 18,000 |
| 2014 | 18,000 |
| 2015 | 18,000 |
| 2016 | 22,125 |
| 2017-2021 | <u>91,875</u> |
| | <u>\$ 186,000</u> |

BOYD COUNTY PUBLIC LIBRARY DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CASH BALANCES - REGULATORY BASIS - BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2011

| | ORIGINAL & FINAL BUDGET | ACTUAL | VARIANCE POSITIVE (NEGATIVE) |
|---|--|---------------------|---|
| RECEIPTS | | | |
| Boyd County sheriff | \$ 3,097,500 | \$ 3,033,274 | \$ (64,226) |
| Boyd County clerk | 221,500 | 295,574 | 74,074 |
| Kentucky Revenue Cabinet | 108,000 | 233,266 | 125,266 |
| E-Rate | 38,000 | 26,035 | (11,965) |
| State aid/grants | 24,500 | 30,951 | 6,451 |
| Fines | 40,500 | 37,139 | (3,361) |
| Copier & other fees | 13,500 | 14,417 | 917 |
| Reimbursements | 2,500 | 4,078 | 1,578 |
| Miscellaneous receipts | 4,500 | 4,052 | (448) |
| Contributions and gifts | 6,500 | 8,067 | 1,567 |
| Interest income | 30,000 | 29,297 | (703) |
| Investment income | 1,000 | 8,079 | 7,079 |
| Friends receipts | 500 | 409 | (91) |
| Total receipts | <u>3,588,500</u> | <u>3,724,638</u> | <u>136,138</u> |
| DISBURSEMENTS | | | |
| Salaries and related benefits | 1,390,000 | 1,350,277 | (39,723) |
| Library materials | 647,000 | 484,398 | (162,602) |
| Building improvements and repairs | 206,500 | 225,238 | 18,738 |
| Technology | 256,500 | 237,312 | (19,188) |
| Software/upgrades | 35,000 | 15,507 | (19,493) |
| Postage | 30,000 | 30,875 | 875 |
| Service contracts | 148,000 | 135,375 | (12,625) |
| Utilities | 165,000 | 128,579 | (36,421) |
| Lease expense | - | 16,500 | 16,500 |
| Office supplies | 140,500 | 118,409 | (22,091) |
| Equipment purchases | 266,000 | 306,288 | 40,288 |
| Outside services | 37,000 | 33,011 | (3,989) |
| Staff education and travel | 84,000 | 29,909 | (54,091) |
| Insurance | 18,000 | 22,098 | 4,098 |
| Public relations | 55,500 | 41,752 | (13,748) |
| Programming | 52,500 | 30,451 | (22,049) |
| Miscellaneous | 57,000 | 57,804 | 804 |
| Total disbursements | <u>3,588,500</u> | <u>3,263,783</u> | <u>(324,717)</u> |
| EXCESS OF RECEIPTS OVER DISBURSEMENTS | - | 460,855 | 460,855 |
| CASH AND INVESTMENTS-BEGINNING OF YEAR | - | 4,934,338 | 4,934,338 |
| CASH AND INVESTMENTS-END OF YEAR | <u>\$ -</u> | <u>\$ 5,395,193</u> | <u>\$ 5,395,193</u> |



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees of
Boyd County Public Library District
Ashland, Kentucky

We have audited the financial statement of the Boyd County Public Library District (the "Library") for the year ended June 30, 2011, and have issued our report thereon dated November 9, 2011, which includes an explanatory paragraph stating that the Library's financial statement is prepared on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency in internal control over financial reporting, (see 2011-1). A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

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

We noted certain matters that we reported to management of the Library in a separate letter dated November 9, 2011.

This report is intended solely for the information of the Board of Trustees and use of management of the Library, others within the entity, and the Kentucky Department for Libraries and Archives, and is not intended to be and should not be used by anyone other than these specified users.

Kelley, Galloway & Company, PSC

November 9, 2011

BOYD COUNTY PUBLIC LIBRARY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

(A) SUMMARY OF AUDIT RESULTS

- The auditor's report expresses an unqualified opinion on the financial statement of Boyd County Public Library District.
- Significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.
- No instances of noncompliance material to the financial statements of Boyd County Public Library District were disclosed during the audit.

(B) FINDINGS RELATING TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

2011-1 – Bank Reconciliations

- Condition: The June 2011 bank reconciliation was not prepared due to differences from the previous month. In addition, the previous months of the fiscal year were prepared, but did not reconcile with the General Ledger.
- Effect: The bank reconciliation balance did not agree to the general ledger and an adjustment was necessary.
- Recommendation: We recommend that reconciliations be prepared each month and when differences are detected, they are promptly investigated and resolved. Additionally, we recommend the preparer verify the reconciled balance per the reconciliation agrees with the General Ledger balance for each month.
- Response: Management will make every effort to ensure that reconciliations are performed and any differences corrected on a timely basis.