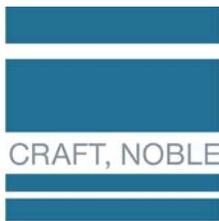


MADISON COUNTY PUBLIC LIBRARY
FINANCIAL STATEMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2016



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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
Madison County Public Library

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of the Madison County Public Library, as of and for the year ended June 30, 2016, 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 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 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 of the Madison County Public Library, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of proportionate share of the net pension liability, the schedule of pension contributions, and the schedule of changes in benefits and assumptions on pages 3 through 6, page 13, and pages 28 through 30 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 November 4, 2016 on our consideration of the Madison County Public 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 Madison County Public Library's internal control over financial reporting and compliance.

Craft, Noble & Company, PLLC

Craft, Noble & Company, PLLC
Richmond, Kentucky
November 4, 2016

MADISON COUNTY PUBLIC LIBRARY MANAGEMENT'S DISCUSSION AND ANALYSIS

The Madison County Public Library's management offers readers of the financial statements this narrative overview and analysis of the financial activities of the library for the fiscal year ended June 30, 2016. Please read this MD&A in conjunction with the Library's Financial Statements, which follow.

Financial Highlights

- I. The Library spent approximately 16% of its tax revenues on Library Materials.*
- II. The Library Board of Trustees maintained the same property tax rates as the prior year, and the Library's income from property tax increased 2% from the previous fiscal year.*
- III. The Library continues to spend on improved equipment and improved services.*

Overview of the Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditor's report and the basic financial statements of the Library. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

Over the past years, the primary focus of local government financial statements has been summarized fund-type information on a current financial resource basis. This approach has been modified and now the Library's financial statements present two kinds of statements, each with a different snapshot of the Library's finances. The new focus is both the Library as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the Library's overall financial status. The fund financial statements focus on the current operational activity of the Library, reporting the Library's operations in more detail than the government-wide statements. Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison (year to year or government to government) and enhance the Library's accountability.

Government-Wide Statements

The government-wide statements report information about the Library as a whole using accounting methods similar to those used by private-sector companies. One of the most important questions asked about the Library's finances is "Is the Library as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Library's activities in a way that will help answer this question. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the net assets of the Library and the changes in them. One can think of the Library's net assets – the difference between assets and liabilities – as a way to measure the Library's financial position. Over time, increases or decreases in the Library's net assets are one indicator of whether the Library is doing better or worse financially. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth and new or changed government legislation.

In the Statement of Net Position and the Statement of Activities, we look at the Library's overall activity.

Governmental activities – most of the Library's basic services are reported here including property taxes, grants and other income finance most of these activities.

Fund Financial Statements

Traditional users of government financial statements will find the fund financial statement presentation more familiar. The focus is now on the Library's funds. The fund financial statements provide more information about the Library's funds and current year detail operations and not the Library as a whole.

The Library's fund statement encompasses the activity of the general fund. The general fund is the primary and only operating fund of the Library. It accounts for financial resources used for general types of operations. This statement offers a short-term view of the current year.

Financial Analysis of the Library as a Whole

Below is an analysis of the comparative statement of net assets for the years ending June 30, 2016 and 2015:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Variance</u>
Capital assets, net of depreciation	\$ 6,128,672	\$ 6,210,718	\$ (82,046)
Other assets	3,549,197	3,477,211	71,986
Deferred outflows	371,122	137,611	233,511
Long-term liabilities	5,009,198	4,815,475	193,723
Current liabilities	358,695	319,168	39,527
Deferred inflows	-	110,400	(110,400)
Invested in fixed assets,	2,578,672	2,405,718	172,954
Unrestricted net position	2,102,426	2,174,779	(72,353)

The Library's main source of revenue is property tax, which is approximately 93% of the Library's total revenue. Other income sources included grants, donations, state aid, and fines and fees. The personnel expense represents 63% of total operating expenditures -- on par with the state average of 63%. Personnel expenditures increased about 3% from the previous year. This increase included the addition of several PT staff in support of overall growth of the organization. Also included were increases in health insurance rates and employer contribution rates to the Kentucky Retirement System (County Employees Retirement System, or CERS), both of which are benefits provided to full-time employees.

Financial Analysis of the Library as a Whole (Continued)

Revenue and Expense Comparison for the years ended:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Variance</u>
Taxing district revenues	\$ 2,917,042	\$ 2,825,527	\$ 91,515
Grant revenues	38,144	41,144	(3,000)
Investment income	64,250	26,736	37,514
Public support	27,200	26,145	1,055
Other revenues	106,879	144,049	(37,170)
Total revenues	<u>3,153,515</u>	<u>3,063,601</u>	<u>89,914</u>
Personnel expenses	1,749,420	1,498,102	251,318
Library materials	458,175	476,209	(18,034)
Telephone and utilities	56,298	55,750	548
Insurance	42,963	39,386	3,577
Public relations	30,367	32,683	(2,316)
Programming	38,939	37,612	1,327
Office supplies	25,190	26,411	(1,221)
Postage	6,617	4,428	2,189
Legal and accounting	21,999	24,759	(2,760)
Summer reading	27,998	30,663	(2,665)
Van and bookmobile operations	14,107	21,104	(6,997)
Staff education and dues	10,248	17,057	(6,809)
Computer expenses	32,000	14,992	17,008
Telecommunication	26,369	10,121	16,248
Other expenses	16,082	15,442	640
Grounds maintenance	14,337	14,794	(457)
Building maintenance	53,791	75,902	(22,111)
Maintenance supplies	26,127	22,628	3,499
Equipment repairs and rental	24,545	26,440	(1,895)
Bond issue costs	20,850	-	20,850
Interest	113,592	120,695	(7,103)
Depreciation	242,900	236,847	6,053
Total expenditures	<u>3,052,914</u>	<u>2,802,025</u>	<u>250,889</u>
Change in net position	<u>\$ 100,601</u>	<u>\$ 261,576</u>	<u>\$ (160,975)</u>

Capital Asset Activity

Capital asset activity included several building updates to improve access and quality of service. Security was improved at both building locations with the addition of security cameras and upgrades both to existing cameras and the recording systems.

Final site work on the Richmond Annex project was completed in the summer of 2015, and this included the installation of rain gardens for storm water runoff and decorative fencing around the outside perimeter of the lot.. The Annex building now houses several countywide offices, including Technical Services; Outreach, Adult Programming, and Bookmobile; Resource Services; and some IT services. The Annex adds about 4,000 square feet of office space and 2,000 square feet of storage space.

The new “green” lighting replacement project was completed in the Richmond location. This includes LED fixtures that are maintenance-free for five years.

In Summer 2015, the library completed the upgrade of its infrastructure to support a 50 mbps dedicated fiber internet connection. This work included all three buildings. The phone system was also upgraded to connect all three locations, enabling call transfer between buildings for the first time in the library’s history. The HVAC systems in all three buildings required work throughout the year, with the most intensive work done in the main Richmond location. Aging units were replaced, major parts were reworked and/or replaced, and attempts were made to fix the geothermal system which continues to work well below the necessary levels.

Capital Asset Activity(Continued)

Finally, the library board contracted with 5253 Design Group to begin work on building plans for the proposed expansion of the Richmond facility.

Budget Highlights

The Library adopts an annual budget at the May Board meeting after it has been presented in April for discussion. The budget is done through a cooperative team of Board members and staff members plus the Bookkeeper. Several meetings are held prior to the April Board meeting, and goals for the next year are established by the staff and possible expenditures related to those goals are identified. The Operating Budget includes proposed expenses and the means of financing them. The Library's operating budget is amended during the year if unusual events occur. A current Fiscal Year budget comparison for the current month and year to date is presented to management and the Board of Trustees as interim financial statements; however, they are not reported on, nor shown, on the financial statements section of this report. A procurement code has been established by the Board to give direction to larger spending amounts.

The Library has operated on a zero balance budget so that at the end of the fiscal year each budget category reverts back to the new balance for the new year. Each year the library staff has worked diligently to keep the overall budget in line with the projected budget. Some categories may be over but in general the overall amounts are taken to the Board of Trustees for approval before the purchase is made. Please note that this budget comparison is prior to any audit adjustments and reclassification of library charges out of correlating expense accounts (i.e. copying fees are shown net in copy expenses for budget purposes). A summarized comparison of budget highlights is listed below:

	Budget Comparison for 2016 – 2015		
	<u>Budgeted</u>	<u>Actual Amount</u>	<u>Difference</u>
Net Revenue	\$ 3,305,268	\$ 3,153,515	\$ (151,753)
Personnel expenses	1,629,551	1,614,608	14,943
Library Materials	454,735	458,175	(3,440)
Telephone and utilities	73,000	56,298	16,702
Insurance	38,000	42,963	(4,963)
Public relations	32,000	30,367	1,633
Programming	34,000	38,939	(4,939)
Office supplies	19,000	25,190	(6,190)
Postage	8,000	6,617	1,383
Legal and accounting	27,000	21,999	5,001
Summer reading	17,000	27,998	(10,998)
Van and bookmobile operations	24,500	14,107	10,393
Staff education and dues	21,000	10,248	10,752
Computer expenses	89,700	32,000	57,700
Telecommunication	21,000	26,369	(5,369)
Other expenses	10,000	16,082	(6,082)
Grounds maintenance	17,000	14,337	2,663
Building Maintenance	70,000	53,791	16,209
Maintenance supplies	18,000	26,127	(8,127)
Equipment repairs and rental	27,000	24,545	2,455
Capital outlays	261,782	160,854	100,928
Debt service on bond issue	413,000	379,705	33,295
Total Budgeted	<u>\$ -</u>	<u>\$ 72,196</u>	<u>\$ 72,196</u>

Debt Administration

The Library maintains a strict budget for the purpose of being able to meet their bond issue payments. These numbers are figured into the budget yearly. A reserve account has been started to meet replacement needs for equipment. All debt is reducing per terms of applicable notes and bond issues. The terms of such are discussed thoroughly in the notes to the attached financial statements.

Economic Factors and Next Year's Budget

The Library considered many factors when setting the fiscal year 2016 budget. One of the factors was the local economy and anticipated tax revenue to be expected from the property tax. This is the Library's main source of revenue. The Library's operating expense increases and future capital expansion plans are dependent upon growth in tax revenue. Based on the new long-range plan the board has developed, the library anticipates significant facility renovation and addition over the next few years to begin to bring the system up to the basic standard of square-footage for its population size, in accordance with the Kentucky Public Library Standards.

Contacting the Library Management

The financial report is designed to provide the citizens of Madison County and its creditors with a general overview of the Library's finances and to demonstrate the Library's accountability of the money it receives. If you have questions about this report or need additional financial information, do not hesitate to contact the Director, Ruthie Maslin or the Treasurer, Nola Newman.

Madison County Public Library
Statement of Net Position
June 30, 2016

Assets

Current Assets:

Cash and cash equivalents	\$ 1,710,476
Investments	1,784,246
Accounts receivable	35,803
Prepaid expenses	18,672
Total Current Assets	<u>3,549,197</u>

Fixed Assets:

Depreciable buildings, property and equipment, net of depreciation	5,642,990
Land	485,682
Total Fixed Assets	<u>6,128,672</u>

Total Assets	<u><u>\$ 9,677,869</u></u>
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Deferred Outflows of Resources:

Subsequent pension contributions	\$ 122,402
Difference between expected and actual pension experience	14,265
Changes of assumptions	173,093
Change in proportionate share of contributions	45,975
Difference between projected and actual pension earnings	15,387
Total Deferred Outflows of Resources	<u><u>\$ 371,122</u></u>

Liabilities:

Current Liabilities:

Accounts payable	\$ 6,730
Interest payable	16,465
Current portion of bonds payable	330,000
Current portion of compensated absences	5,500
Total Current Liabilities	<u>358,695</u>

Long-Term Obligations:

Compensated absences	74,638
Net pension liability	1,714,560
Bonds payable	3,220,000
Total Long-Term Obligations	<u>5,009,198</u>

Total Liabilities	<u><u>\$ 5,367,893</u></u>
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Net Position:

Invested in fixed assets	2,578,672
Unrestricted	2,102,426
Total Net Position	<u><u>\$ 4,681,098</u></u>

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

Madison County Public Library
Statement of Activities
For The Year Ended June 30, 2016

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
				Primary Government
Governmental activities				
Cultural and recreations	\$ (3,052,914)	67,440	65,344	\$ (2,920,130)
General Revenues:				
			Taxing district revenues	\$ 2,917,042
			Investment income	64,250
			Other income	39,439
			Total general revenues	3,020,731
			Change in net position	100,601
			Net position - beginning	4,580,497
			Net position - ending	\$ 4,681,098

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

Madison County Public Library
Balance Sheet
Governmental Fund
June 30, 2016

	Governmental Fund
Assets	
Cash and cash equivalents	\$ 1,710,476
Investments	1,784,246
Accounts receivable	35,803
Prepaid expenses	18,672
Total Assets	\$ 3,549,197
Liabilities	
Accounts payable	\$ 6,730
Compensated absences	5,500
Total Liabilities	\$ 12,230
Fund Balances	
Nonspendable	\$ 18,672
Committed - contingency fund	1,269,970
Committed - capital development fund	400,000
Assigned - depreciation fund	400,000
Unassigned	1,448,325
Total Fund Balances	\$ 3,536,967
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the fund	\$ 6,128,672
Deferred outflows, inflows, and net pension liability related to the implementation of GASB 68 which are not receivable or payable in the current period and therefore, not reported in the fund	(1,343,438)
Certain liabilities (including net bonds and notes payable, capital leases and compensated absences) are not due and payable in the current period and therefore, not reported in the fund	(3,641,103)
Net position of governmental activities	\$ 4,681,098

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

Madison County Public Library
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund
For The Year Ended June 30, 2016

	Governmental Fund
Revenues	
Taxing district revenues	\$ 2,917,042
Grant revenues	38,144
Investment income	64,250
Public support	27,200
Other revenues	106,879
Total Revenues	3,153,515
Expenditures	
Personnel expenses	1,614,608
Library materials	458,175
Telephone and utilities	56,298
Insurance	42,963
Public relations	30,367
Programming	38,939
Office supplies	25,190
Postage	6,617
Legal and accounting	21,999
Summer reading	27,998
Van and bookmobile operations	14,107
Staff education and dues	10,248
Computer expenses	32,000
Telecommunication	26,369
Other expenses	16,082
Grounds maintenance	14,337
Building maintenance	53,791
Maintenance supplies	26,127
Equipment repairs and rental	24,545
Bond Issue Costs	20,850
Total Current Expenditures	2,561,610
Operating capital outlays	160,854
Debt Service	
Principal	315,000
Interest	103,855
Total Expenditures	3,141,319
Excess of Revenues over Expenditures	12,196
Other Financing Sources (Uses)	
Proceeds from Long-Term Debt Issued	1,985,000
Payments to Refunding Bond Agent	(1,925,000)
Total Other Financing Sources and (Uses)	60,000
Net change in fund balance	72,196
Fund balance - beginning	3,464,771
Fund balance - ending	\$ 3,536,967

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

Madison County Public Library
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
 Balance of Governmental Fund to the Statement of Activities
 For The Year Ended June 30, 2016

Reconciliation to the Statement of Activities:

Net Change in Fund Balance - Governmental Fund	\$	72,196
<p>Government Funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets are allocated over their useful lives and reported as depreciation expenses.</p>		
Capital Outlay		160,854
Depreciation Expense		(242,900)
<p>Governmental Funds report pension related expenses of \$169,635. However, the Statement of Net Position reports pension expense calculated pursuant to GASB 68 of \$284,786</p>		
		(133,564)
<p>Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position</p>		
		315,000
<p>Government Funds report expense as paid by the Organization; however, in the Statement of Activities, expenses are reported as due based on a 60-day accrual. Accordingly, the Statement of Activities recorded more expenses than the fund accounting due to accrued compensated absences and accrued interest expense.</p>		
		(10,985)
<p>Proceeds of bond principal is an other financing source in the governmental funds, but the receipt increases long-term liabilities in the Statement of Net Position</p>		
		(1,985,000)
<p>Payments to Refunding Bond Agent is an other financing use in the governmental funds, but the distribution decreases long-term liabilities in the Statement of Net Postion</p>		
		1,925,000
Change in Net Position of Governmental Activities	\$	100,601

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

Revenues	Budget	Budget	Actual	Variance
Taxing district revenues	\$ 3,039,986	\$ 3,039,986	\$ 2,917,042	\$ (122,944)
Grant revenues	47,000	47,000	38,144	(8,856)
Investment income	5,000	5,000	64,250	59,250
Public support	10,000	10,000	27,200	17,200
Other revenues	131,500	203,282	106,879	(96,403)
Total Revenues	<u>3,233,486</u>	<u>3,305,268</u>	<u>3,153,515</u>	<u>(151,753)</u>
Expenditures				
Current				
Personnel expenses	1,629,551	1,629,551	1,614,608	14,943
Library materials	454,735	454,735	458,175	(3,440)
Telephone and utilities	73,000	73,000	56,298	16,702
Insurance	38,000	38,000	42,963	(4,963)
Public relations	32,000	32,000	30,367	1,633
Programming	34,000	34,000	38,939	(4,939)
Office supplies	19,000	19,000	25,190	(6,190)
Postage	8,000	8,000	6,617	1,383
Legal and accounting	27,000	27,000	21,999	5,001
Summer reading	17,000	17,000	27,998	(10,998)
Van and bookmobile operations	24,500	24,500	14,107	10,393
Staff education and dues	21,000	21,000	10,248	10,752
Computer expenses	89,700	89,700	32,000	57,700
Telecommunication	21,000	21,000	26,369	(5,369)
Other expenses	10,000	10,000	16,082	(6,082)
Grounds maintenance	17,000	17,000	14,337	2,663
Building maintenance	70,000	70,000	53,791	16,209
Maintenance supplies	18,000	18,000	26,127	(8,127)
Equipment repairs and rental	27,000	27,000	24,545	2,455
Bond Issue Costs	-	-	20,850	(20,850)
Total Current Expenditures	<u>2,630,486</u>	<u>2,630,486</u>	<u>2,561,610</u>	<u>68,876</u>
Operating capital outlays	190,000	261,782	160,854	100,928
Debt Service				
Debt service on bonds	413,000	413,000	418,855	(5,855)
Total Expenditures	<u>3,233,486</u>	<u>3,305,268</u>	<u>3,141,319</u>	<u>163,949</u>
Other Financing Sources (Uses)				
Proceeds from Long-Term Debt Issued	-	-	1,985,000	1,985,000
Payments to Refunding Bond Agent	-	-	(1,925,000)	1,925,000
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>60,000</u>	<u>(60,000)</u>
Net change in fund balance	-	-	72,196	72,196
Fund balance - beginning	<u>3,831,214</u>	<u>3,831,214</u>	<u>3,464,771</u>	
Fund balance - ending	<u>\$ 3,831,214</u>	<u>\$ 3,831,214</u>	<u>\$ 3,536,967</u>	

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

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Madison County Public Library was created in 1987 as a taxing district. This public library district was formed by the Madison County Fiscal Court pursuant to K.R.S. 65.182 et. seq. and K.R.S. 173.450 et. seq. The public library district was created to provide all Madison County residents with access to public library services, and to establish, equip, maintain and administer a countywide public library system. A countywide tax shall be collected for the public library district in the manner described in K.R.S. 65.182 and other applicable law. The affairs of the public library district shall be operated by a Board of Trustees as set forth by K.R.S. 173.450.

Basis of Presentation

The financial statements of the Madison County Public Library District have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Standards Board is the accepted standards-setting body for establishing governmental accounting and financial reporting principles.

Government-Wide Financial Statements – The Statement of Net Position and the Statement of Activities display information about the library’s taxing district as a whole.

Fund Financial Statements – are organized into funds, each of which is considered separately. The library has only one such governmental fund that accounts for the daily operating activity of the library. A description of such fund is as follows:

- The General Fund is the primary and only operating fund of the library. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use.

Basis of Accounting

In the government-wide Statement of Net Position and the Statement of Activities, all activities are presented under the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Property taxes are recorded as revenue when collected and available to be remitted to the Library by county tax collection agencies. Expenditures are recognized when the related fund liability is incurred.

Cash and Cash Equivalents

The Library considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Budgeting

The Organization follows the procedures established pursuant to Section 91A.030 of the Kentucky Statutes in establishing the budgetary data reflected in the financial statements. Budgets for the general fund are adopted on a basis consistent with United States generally accepted accounting principles.

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables and Property Tax Revenues

In the government-wide statements, property tax revenues are recognized when they become available. Available property tax revenues include those property tax receivables expected to be collected within sixty days after year-end. Delinquent taxes are considered fully collectible and, therefore, no allowance for uncollectible taxes is provided.

Property, Equipment and Depreciation

Property and equipment is stated at cost or, if donated, at the approximate fair value at the date of donation. All property and equipment purchases have been capitalized and recorded in the government-wide financial statements. Additionally, as all capital assets are directly utilized in the Library's operating activities, an expense for capital outlays has been reported in the fund financial statements. The Library expenses all books and materials as purchased and does not capitalize such items.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Depreciation for the year ended June 30, 2016 was \$242,900.

Fund Balance

As of June 30, 2012, the Library implemented GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions. Fund balances of the governmental funds are classified as follows:

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

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the Board. The Board is the highest level of decision-making authority for the Library. Commitments may be established, modified, or rescinded only through resolutions approved by the Board.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. Only the Board may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

As of June 30, 2016 fund balances are comprised of the following:

	<u>General Fund</u>
Nonspendable	\$ 18,672
Committed - Contingency fund	\$ 1,269,970
Committed - Capital development fund	\$ 400,000
Assigned - Depreciation fund	\$ 400,000
Unassigned	\$ 1,448,325

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

MADISON COUNTY PUBLIC LIBRARY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous (“CERS”) and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 – CONCENTRATION OF CREDIT RISK

The Library maintains cash and cash equivalents in local banks which may, at times, exceed the FDIC limits. The Library’s cash and cash equivalents are categorized as either (1) insured or collateralized with securities held by the entity or by its agent in the entity’s name, (2) collateralized with securities held by the pledging financial institution’s trust department or agent in the entity’s name or (3) uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity’s name). The Library’s categorization as of June 30, 2016 was as follows:

Category 1	\$	250,385
Category 2	\$	1,460,111
Category 3	\$	-

NOTE 3 – INVESTMENTS

Investments are presented in the financial statements as of June 30, 2016 as current assets because they are available to meet current obligations. Investments consist of publicly traded bonds and notes. Market values and unrealized depreciation at June 30, 2016 are as follows:

<u>Type of Security</u>	<u>Cost</u>	<u>June 30, 2016 Market Value</u>	<u>Unrealized Appreciation</u>
Bonds & Notes	\$ 1,745,442	\$ 1,784,246	\$ 38,804
	<u>\$ 1,745,442</u>	<u>\$ 1,784,246</u>	<u>\$ 38,804</u>

During the year ended June 30, 2016 the Organization recognized unrealized gains totaling \$14,849.

Fair Value Measurements

FASB issued FASB ASC 820, *Fair Value Measurements and Disclosures* in order to establish a single definition of fair value and a framework for measuring fair value in Generally Accepted Accounting Principles (GAAP) that is intended to result in increased consistency and comparability in fair value measurements. FASB ASC 820 also expands disclosures about fair value measurements. FASB ASC 820 applies whenever other authoritative literature requires (or permits) certain assets or liabilities to be measured for fair value, but does not expand the use of fair value.

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 – INVESTMENTS (CONTINUED)

FASB ASC 820 defines fair value as the exchange price that would be received on the measurement date to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between participants. FASB ASC 820 also establishes a three level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

Level 1 – Asset and liability fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2 – Asset and liability fair values are based on observable inputs that include quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets and liabilities. Level 2 assets and liabilities include certificates of deposit.

Level 3 – Assets and liabilities are financial instruments whose value is calculated by the use of pricing models and/or discounted cash flow methodologies, as well as financial instruments for which the determination of fair value requires significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

Fair value of assets and liabilities measured on a recurring basis at June 30, 2016 are as follows:

<u>Description</u>	<u>June 30, 2016</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Bonds & Notes	\$ 1,784,246	\$ 130,739	\$ 1,653,507	\$ -

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

<u>Governmental Activities</u>	<u>July 1, 2015</u>	<u>Additions</u>	<u>June 30, 2016</u>
Land	\$ 485,682	\$ -	\$ 485,682
Buildings	7,192,831	116,840	7,309,671
Furniture and equipment	1,086,149	44,014	1,130,163
Total at historical cost	<u>8,764,662</u>	<u>160,854</u>	<u>8,925,516</u>
Less: Accumulated Depreciation			
Buildings	1,734,751	182,025	1,916,776
Furniture and equipment	819,193	60,875	880,068
Total accumulated depreciation	<u>2,553,944</u>	<u>242,900</u>	<u>2,796,844</u>
Capital assets – net	<u>\$ 6,210,718</u>	<u>\$ (82,046)</u>	<u>\$ 6,128,672</u>

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5 – ADVANCED REFUNDINGS AND DEFEASANCES

Series 2013

The Library issued \$2,205,000 of General Obligation Refunding Bonds, Series 2013, (advance refunding) dated March 27, 2013, with an average interest rate of 1.9% to refund \$2,660,000 of General Obligation Bonds, Series 2006B with an average interest rate of 3.825%. The Library will reduce its total debt service payments over the next 15 years by approximately \$1.08 million and obtain an economic gain of approximately \$160,000.

The proceeds from the refunding bonds have been deposited in an irrevocable trust at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future redemption or payment of principal and interest of the issues refunded. As a result, the refunded bonds are considered defeased and the liability has been removed from the governmental activities column of the financial statements.

The maturities of bonds payable of \$1,580,000 are summarized as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 2017	\$ 215,000	\$ 31,600	\$ 246,600
June 2018	215,000	27,300	242,300
June 2019	220,000	23,000	243,000
June 2020	225,000	18,600	243,600
June 2021	230,000	14,100	244,100
June 2022-2026	475,000	14,300	489,300
Total	<u>\$ 1,580,000</u>	<u>\$ 128,900</u>	<u>\$ 1,708,900</u>

Series 2016

The Library issued \$1,985,000 of General Obligation Refunding Bonds, Series 2016, (advance refunding) dated March 29, 2016, with an average interest rate of 2.056% to refund \$2,740,000 of General Obligation Bonds, Series 2006 with an average interest rate of 3.825%. The Library will reduce its total debt service payments over the next 15 years by approximately \$277,000 and obtain an economic gain of approximately \$234,000.

The proceeds from the refunding bonds have been deposited in an irrevocable trust at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future redemption or payment of principal and interest of the issues refunded. As a result, the refunded bonds are considered defeased and the liability has been removed from the governmental activities column of the financial statements.

The maturities of bonds payable of \$1,970,000 are summarized as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 2017	\$ 115,000	\$ 40,150	\$ 155,150
June 2018	115,000	39,000	154,000
June 2019	120,000	37,225	157,225
June 2020	125,000	34,775	159,775
June 2021	120,000	32,325	152,325
June 2022 - 2026	650,000	123,625	773,625
June 2027 - 2031	725,000	46,188	771,188
Total	<u>\$ 1,970,000</u>	<u>\$ 353,288</u>	<u>\$ 2,323,288</u>

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 6 – COMPENSATED ABSENCES

It is the Library’s policy to compensate all employees for certain absences not used at the end of their employment. As of June 30, 2016 the liability for these absences was \$80,138 and has been included in the personnel expenses. Such liability is recorded in the government-wide financial statements.

NOTE 7 – LONG-TERM OBLIGATIONS

A summary of changes in long-term debt follows:

	Compensated Absences	Bond Payable	Total
Payable at June 30, 2015	\$ 78,890	\$ 3,805,000	\$ 3,883,890
Net increase in compensated absences	1,248	-	1,248
Debt issued	-	1,985,000	1,985,000
Debt retired	-	(2,240,000)	(2,240,000)
Payable at June 30, 2016	<u>\$ 80,138</u>	<u>\$ 3,550,000</u>	<u>\$ 3,630,138</u>

A schedule of the required payments on the aforementioned long-term debt follows:

Year Ended June 30	Principal	Interest	Total
2017	\$ 335,500	\$ 71,750	\$ 407,250
2018	330,000	66,300	396,300
2019	340,000	60,225	400,225
2020	350,000	53,375	403,375
2021	350,000	46,425	396,425
2022 - 2026	1,125,000	137,925	1,262,925
2027 - 2031	799,638	46,188	845,826
Totals	<u>\$ 3,630,138</u>	<u>\$ 482,188</u>	<u>\$ 4,112,326</u>

NOTE 8 – PROPERTY TAX CALENDAR

Property taxes for fiscal year 2016 were levied on October 1, 2015 on the assessed property located in Madison County as of the preceding January 1. The assessments are determined by the County Property Valuation Administrator in accordance with Kentucky Revised Statutes. The due date collection periods for all taxes exclusive of vehicle taxes are as follows:

Description	Date Per K.R.S. 134.020
1. Due date for payment	Upon receipt
2. 2% discount applies	To November 30
3. Face value payment period	To December 31
4. Past due date, 5% penalty	January 1
5. Interest charge	16% effective January 1

Vehicle taxes are collected by the County Clerk of Madison County and are due and collected in the birth month of the vehicle’s licensee.

MADISON COUNTY PUBLIC LIBRARY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 9 – PUBLIC SUPPORT

Total public support (including Friends of the Madison County Public Library): \$ 27,200

The Friends of the Madison County Public Library Organization is a separate organization formed by individuals wishing to help the Madison County Public Library raise funds for various projects. The Friends Organization is not a part of the Madison County Public Library.

NOTE 10 – RETIREMENT PLAN

The Library’s employees are provided with the County Employees Retirement System.

General information about the County Employees Retirement System Non-Hazardous (“CERS”)

Plan description—Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided—CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years’ service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years’ service and hire date multiplied by the average of the highest five years’ earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years’ service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent’s beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent’s monthly final rate of pay and any dependent child will receive 10% of the decedent’s monthly final rate of pay up to 40% for all dependent children. Five years’ service is required for nonservice-related disability benefits.

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 10 – RETIREMENT PLAN (CONTINUED)

Contributions—Required contributions by the employee are based on the tier:

	<u>Required contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the Library reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the Library as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the Library were as follows:

Library's proportionate share of the CERS net pension liability	\$	1,714,560
Commonwealth's proportionate share of the CERS net pension liability associated with the Library		4,297,810,440
	<u>\$</u>	<u>4,299,525,000</u>

The net pension liability for each plan was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The Library's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2015, the Library's proportion was 0.039924% percent.

For the year ended June 30, 2016, the Library recognized pension expense of \$211,439 related to CERS. At June 30, 2016, the Library reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual results	\$ -	\$ -
Difference between projected and actual experience	14,265	-
Changes of assumptions	173,093	-
Net difference between projected and actual earnings on Plan investments	15,387	-
Changes in proportion and differences between Company contributions and proportionate share of contributions	45,975	-
Library contributions subsequent to the measurement date	122,402	-
Total	<u>\$ 371,122</u>	<u>\$ -</u>

The \$122,402 reported as deferred outflows of resources related to pensions resulting from Library contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows on the next page.

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 10 – RETIREMENT PLAN (CONTINUED)

Year ending June 30,	
2017	\$ 87,772
2018	87,772
2019	42,220
2020	30,956

Actuarial assumptions—The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.00%, average, including inflation
Investment rate of return	7.50%, net of Plan investment expense, including inflation

For CERS, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in the mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	2%	-0.25%
Total	100%	

MADISON COUNTY PUBLIC LIBRARY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 10 – RETIREMENT PLAN (CONTINUED)

Discount rate—For CERS, the discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Library’s proportionate share of net pension liability to changes in the discount rate—The following table on the next page presents the net pension liability of the Library, calculated using the discount rates selected by each pension system, as well as what the Library’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

	Discount rate	Library’s proportionate share of net pension
1% decrease	6.50%	\$ 2,191,356
Current discount rate	7.50%	\$ 1,714,560
1% increase	8.50%	\$ 933,716

Pension plan fiduciary net position—Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial reports of CERS.

The Library’s employees are provided with the County Employees Retirement System.

NOTE 11 – 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. In addition to its general liability insurance, the library also carries commercial insurance for all other risks of loss such as worker’s compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE 12 – SUBSEQUENT EVENTS

Management of the Organization has considered subsequent events through November 4, 2016, the date this report became available for issuance.

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
Madison County Public Library
Richmond, 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 of Madison County Public Library, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Madison County Public Library's basic financial statements, and have issued our report thereon dated November 4, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Madison 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 Madison County Public Library's internal control. Accordingly, we do not express an opinion on the effectiveness of Madison County Public 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 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. 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 preceding paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses (2016-1).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Madison 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*.



Madison County Public Library's Response to Findings

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

Craft, Noble & Company, PLLC

Craft, Noble & Company, PLLC
Richmond, Kentucky
November 4, 2016

MADISON COUNTY PUBLIC LIBRARY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016

FINDINGS- FINANCIAL STATEMENT AUDIT

2016-1

Criteria:

As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

Condition:

During the audit procedures performed, instances of this objective not being completely achieved were noted.

Cause:

The Library does not have appropriate procedures and adequate personnel in place to review their internal financial reporting.

Effect:

Several adjustments were discovered by audit procedures that, when considered in the aggregate, were more than inconsequential to the financial statements. Additionally, there were adjustments that were material to the financial statements. The Library did not have effective procedures in place to ensure that all accruals and adjustments that are needed have been appropriately recorded. Additionally, the Library's staff or contracted personnel did not collectively possess a full working knowledge of generally accepted accounting principles.

Organization Response and Corrective Action Plan:

Management is aware of the cause of these errors and has consulted with their external Certified Public Accountant to correct these errors going forward.

We did not audit the Library's response and, accordingly, we express no opinion on it.

Madison County Public Library
Schedule of Proportionate Share of the Net Pension Liability
For the Year Ended June 30, 2016, 2015 and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Library's proportion of the net pension liability	0.039924%	0.038141%	0.038141%
Library's proportionate share of the net pension liability	\$ 1,714,560	\$ 1,237,085	\$ 1,396,312
Library's covered employee payroll	\$ 980,354	\$ 925,475	\$ 872,393
Library's share of the net pension liability as a percentage of its covered employee payroll	174.89%	133.67%	160.06%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	66.80%	61.22%

Notes:

Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

See the following Schedule of Changes in Benefits and Assumptions for any changes during the periods shown above.

The amounts presented for each fiscal year were determined (measured) as of the previous fiscal year.

See Independent Auditor's Report.

Madison County Public Library
Schedule of Pension Contributions
For the Year Ended June 30, 2016, 2015, 2014 and 2013

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required employer contribution	\$ 122,402	\$ 118,763	\$ 120,227	\$ 95,591
Contributions relative to contractually required employer contribution	<u>\$ 122,402</u>	<u>\$ 118,763</u>	<u>\$ 120,227</u>	<u>\$ 95,591</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Company's covered employee payroll	\$ 980,354	\$ 925,475	\$ 872,393	\$ 774,415
Employer contributions as a percentage of covered-employee payroll	12.49%	12.83%	13.78%	12.34%

Notes:

Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

See the following Schedule of Changes in Benefits and Assumptions for any changes during the periods shown above.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

See Independent Auditor's Report.

**MADISON COUNTY PUBLIC LIBRARY
SCHEDULE OF CHANGES IN BENEFITS AND ASSUMPTIONS
FOR THE YEAR ENDED JUNE 30, 2016**

County Employee Retirement System

Changes of benefit terms – None

Changes in assumptions – The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of June 30, 2015.

- The assumed investment rate of return was decreased from 7.75% to 7.50%
- The assumed rate of inflation was reduced from 3.50% to 3.25%
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%
- The payroll growth assumption was reduced from 4.50% to 4.00%
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback one year for females). For disabled members the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (setback four year for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- Assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.