

MADISON COUNTY PUBLIC LIBRARY
FINANCIAL STATEMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2012



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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
Madison County Public Library

We have audited the accompanying financial statements of the governmental activities and each major fund of the Madison County Public Library as of and for the year ended June 30, 2012, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Madison County Public Library's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 Madison County Public Library as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2011, 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, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 5 and 11 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.



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September 28, 2012

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, 2012. Please read this MD&A in conjunction with the Library's Financial Statements, which follow.

Financial Highlights

- I. The Library spent approximately 11% of its tax revenues on Library Materials.*
- II. The Library's share of the property tax decreased 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 Assets 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 Assets 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 details of 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, 2012 and 2011.

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Variance</u>
Capital assets, net of depreciation	\$ 6,336,927	\$ 6,471,423	\$ (134,496)
Other assets	3,867,644	3,346,184	521,460
Long-term liabilities	4,751,286	4,958,060	(206,774)
Current liabilities	309,264	301,329	7,935
Invested in fixed assets, net of related debt	1,440,372	1,370,047	70,325
Unrestricted net assets	3,703,649	3,188,171	515,478

The Library's main source of revenue is property tax, which is approximately 92% of the Library's total revenue. Other income sources included grants, donations, state aid, and fines and fees. The personnel expense represents 62% of total expenditures, while the state average is 62.5%. Personnel expenditures increased about 20% from the previous year. This increase included the addition of several PT staff, addition of summer programming staff, and increases in the Library's obligatory payments to the Kentucky Retirement System.

Financial Analysis of the Library as a Whole (Continued)

Revenue and Expense Comparison for the years ended:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Variance</u>
Taxing district revenues	\$ 2,797,623	\$ 2,866,491	\$ (68,868)
Grant revenues	74,067	41,119	32,948
Investment income	86,317	63,708	22,609
Public support	14,074	20,587	(6,513)
Other revenues	74,105	80,132	(6,027)
Total revenues	<u>3,046,186</u>	<u>3,072,037</u>	<u>(25,851)</u>
Personnel expenses	1,271,331	1,058,607	212,724
Library materials	364,809	308,846	55,963
Telephone and utilities	59,336	48,378	10,958
Insurance	30,494	27,913	2,581
Public relations	15,849	13,561	2,288
Programming	23,639	24,347	(708)
Office supplies	15,083	23,443	(8,360)
Postage	13,304	12,340	964
Legal and accounting	24,113	18,638	5,475
Summer reading	14,361	7,885	6,476
Van and bookmobile operations	11,314	9,073	2,241
Staff education and dues	11,211	8,845	2,366
Computer expenses	42,440	37,690	4,750
Telecommunication	6,596	5,847	749
Amortization	10,179	10,179	-
Other expenses	10,687	28,808	(18,121)
Grounds maintenance	10,387	12,175	(1,788)
Building maintenance	61,344	64,455	(3,111)
Maintenance supplies	14,567	12,133	2,434
Equipment repairs and rental	22,101	14,067	8,034
Interest	204,371	214,248	(9,877)
Depreciation	222,867	222,485	382
Total expenditures	<u>2,460,383</u>	<u>2,183,963</u>	<u>276,420</u>
Change in fund balance	<u>\$ 585,803</u>	<u>\$ 888,074</u>	<u>\$ (302,271)</u>

Capital Asset Activity

Capital asset activity included several building updates to improve access and quality of service. The entry ramp at the Richmond location was torn out and replaced with a wider ramp with metal handrails. The parking lots at both locations were resealed and restriped, a handicapped space was added in Richmond, and a van-accessible space was added in Berea. The carpet was removed in the Richmond community and program rooms, the original linoleum was refreshed, and both rooms were repainted. Shelving and furniture were added in both locations, notably in the children's/teen areas of both buildings, and the Berea Room, where expansion of the collection required more shelf space. The phone system was upgraded with additional lines and functionality. The Berea sign was relit to improve visibility.

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

Budget Highlights (Continued)

the means of financing them. The Library's operating budget is amended during the year if unusual events occur. A Fiscal 2012 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 2012 – 2011

	<u>Budgeted</u>	<u>Actual Amount</u>	<u>Difference</u>
Net Revenue	\$ 2,718,152	\$ 3,046,186	\$ 328,034
Library Materials	368,116	364,809	3,307
Technology	67,200	49,036	18,164
Employee Expenses	1,236,764	1,268,284	(31,520)
Operating Expenses	333,150	304,578	28,572
Bookmobile/Van	24,200	11,314	12,886
Education/Travel	11,000	11,211	(211)
Other Expenses	<u>677,722</u>	<u>520,695</u>	<u>157,027</u>
Total Budgeted	<u>\$ -</u>	<u>\$ 516,259</u>	<u>\$ 516,259</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. The Board is working with a financial consultant and attorney to establish restricted accounts for Depreciation, Contingency, and Capital Development. 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 considers many factors when setting the fiscal year 2013 budget. One of the factors is 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. The Library anticipates the need for expanded and improved library service according to its strategic plan.

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, Marietta McBride.

Madison County Public Library
Statement of Net Assets
June 30, 2012

Assets

Current Assets:

Cash and cash equivalents	\$	2,199,367
Investments		1,638,023
Accounts receivable		30,254
Total Current Assets		3,867,644

Fixed Assets:

Depreciable buildings, property and equipment, net of depreciation		5,865,735
Land		471,192
Total Fixed Assets		6,336,927

Total Assets		\$ 10,204,571
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Liabilities and Net Assets

Liabilities:

Current Liabilities:

Accounts payable		\$ 30,930
Interest payable		52,834
Current portion of bond payable		220,000
Current portion of compensated absences		5,500
Total Current Liabilities		309,264

Long-Term Obligations:

Compensated absences		74,731
Bond payable net of bond issue cost and discount of \$168,445		4,676,555
Total Long-Term Obligations		4,751,286

Total Liabilities		5,060,550
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Net Assets

Invested in fixed assets, net of related debt		1,440,372
Unrestricted		3,703,649
		\$ 10,204,571

Total Liabilities and Net Assets

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

Madison County Public Library
Statement of Activities
For The Year Ended June 30, 2012

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
				Primary Government
Governmental activities				
Cultural and recreations	\$ (2,460,383)	70,699	88,141	\$ (2,301,543)

General Revenues:	
Taxing district revenues	\$ 2,797,623
Investment income	86,317
Other Income	3,406
Total general revenues	2,887,346
Change in net assets	585,803
Net assets - beginning	4,558,218
Net assets - ending	\$ 5,144,021

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

Madison County Public Library
Balance Sheet
Governmental Fund
June 30, 2012

	Governmental Fund
Assets	
Cash and cash equivalents	\$ 2,199,367
Investments	1,638,023
Accounts receivable	30,254
Total Assets	\$ 3,867,644
Liabilities and Fund Balances	
Liabilities	
Accounts payable	\$ 30,930
Compensated absences	5,500
Total Liabilities	\$ 36,430
Fund Balances	
Committed - contingency fund	\$ 1,016,043
Committed - capital development fund	400,000
Assigned - depreciation fund	400,000
Unassigned	2,015,171
Total Fund Balances	\$ 3,831,214
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the fund	\$ 6,336,927
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	(5,024,120)
Net assets of governmental activities	\$ 5,144,021

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, 2012

	Governmental Fund
Revenues	
Taxing district revenues	\$ 2,797,623
Grant revenues	74,067
Investment income	86,317
Public support	14,074
Other revenues	74,105
Total Revenue	3,046,186
Expenditures	
Current	
Personnel expenses	1,268,284
Library materials	364,809
Telephone and utilities	59,336
Insurance	30,494
Public relations	15,849
Programming	23,639
Office supplies	15,083
Postage	13,304
Legal and accounting	24,113
Summer reading	14,361
Van and bookmobile operations	11,314
Staff education and dues	11,211
Computer expenses	42,440
Telecommunication	6,596
Other expenses	10,689
Grounds maintenance	10,387
Building maintenance	61,344
Maintenance supplies	14,567
Equipment repairs and rental	22,101
Total Current Expenditures	2,019,921
Operating capital outlays	88,369
Debt Service	
Principal	215,000
Interest	206,637
Total Expenditures	2,529,927
Net change in fund balance	516,259
Fund balance - beginning	3,314,955
Fund balance - ending	\$ 3,831,214

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, 2012

Reconciliation to the Statement of Activities:

Net Change in Fund Balance - Governmental Fund	\$	516,259
<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		88,369
Depreciation Expense		(222,867)
Amortization Expense		(10,179)
<p>Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.</p>		
		215,000
<p>Governmental Funds report expenses 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.</p>		
		(779)
Change in Net Assets of Governmental Activities	\$	585,803

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

Madison County Public Library
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For The Year Ended June 30, 2012

Revenues	Enacted Budget	Actual	Favorable (Unfavorable) Balance
Taxing district revenues	\$ 2,600,000	\$ 2,797,623	\$ 197,623
Grant revenues	29,297	74,067	44,770
Investment income	10,000	86,317	76,317
Public support	5,000	14,074	9,074
Other revenues	73,855	74,105	250
Total Revenue	2,718,152	3,046,186	328,034
Expenditures			
Current			
Personnel expenses	1,236,764	1,268,284	(31,520)
Library materials	368,116	364,809	3,307
Telephone and utilities	63,000	59,336	3,664
Insurance	30,000	30,494	(494)
Public relations	17,000	15,849	1,151
Programming	26,000	23,639	2,361
Office supplies	25,000	15,083	9,917
Postage	20,000	13,304	6,696
Legal and accounting	24,150	24,113	37
Summer reading	12,000	14,361	(2,361)
Van and bookmobile operations	24,200	11,314	12,886
Staff education and dues	11,000	11,211	(211)
Computer expenses	58,200	42,440	15,760
Telecommunication	9,000	6,596	2,404
Other expenses	176,084	10,689	165,395
Grounds maintenance	11,000	10,387	613
Building maintenance	72,000	61,344	10,656
Maintenance supplies	17,000	14,567	2,433
Equipment repairs and rental	16,000	22,101	(6,101)
Total Current Expenditures	2,216,514	2,019,921	196,593
Operating capital outlays	80,000	88,369	(8,369)
Debt Service			
Debt service on bond issue	421,638	421,637	1
Total Expenditures	2,718,152	2,529,927	188,225
Net change in fund balance		516,259	
Fund balance - beginning		3,314,955	
Fund balance - ending		<u>\$ 3,831,214</u>	

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

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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 Assets 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 Assets 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, 2012

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 includes 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 on 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, 2012 was \$222,867.

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, 2012 fund balances are comprised of the following:

	<u>General Fund</u>
Committed - Contingency fund	\$ 1,016,043
Committed - Capital development fund	\$ 400,000
Assigned - Depreciation fund	\$ 400,000
Unassigned	\$ 2,015,171

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

NOTE 2 – LONG-TERM OBLIGATIONS

A summary of changes in long-term debt follows:

	<u>Compensated Absences</u>	<u>Bond Payable</u>	<u>Total</u>
Payable at June 30, 2011	\$ 77,184	\$ 5,280,000	\$ 5,357,184
Net increase in compensated absences	3,047	-	3,047
Debt retired	-	(215,000)	(215,000)
Payable at June 30, 2012	<u>\$ 80,231</u>	<u>\$ 5,065,000</u>	<u>\$ 5,145,231</u>

A schedule of the required payments on the aforementioned bonds payable follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 220,000	\$ 198,843	\$ 418,843
2014	230,000	190,731	420,731
2015	235,000	182,336	417,336
2016	250,000	173,495	423,495
2017	260,000	164,072	424,072
2018 – 2022	1,460,000	660,024	2,120,024
2023 – 2027	1,780,000	341,815	2,121,815
2028 – 2030	630,000	57,014	687,014
Less bond issue costs and discount	(168,445)	-	(168,445)
Totals	<u>\$ 4,896,555</u>	<u>\$ 1,968,330</u>	<u>\$ 6,864,885</u>

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

<u>Governmental Activities</u>	<u>July 1, 2011</u>	<u>Additions</u>	<u>June 30, 2012</u>
Land	\$ 471,193	\$ -	\$ 471,193
Buildings	6,700,229	23,151	6,723,380
Furniture and equipment	942,503	65,218	1,007,721
Total at historical cost	<u>8,113,925</u>	<u>88,369</u>	<u>8,202,294</u>
Less: Accumulated Depreciation			
Buildings	1,045,489	167,991	1,213,480
Furniture and equipment	597,013	54,874	651,887
Total accumulated depreciation	<u>1,642,502</u>	<u>222,865</u>	<u>1,865,367</u>
Capital assets – net	<u>\$ 6,471,423</u>	<u>\$ (134,496)</u>	<u>\$ 6,336,927</u>

NOTE 4 – PUBLIC SUPPORT

Total public support (including Friends of the Madison County Public Library) \$14,074

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 5 – 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, 2012 the liability for these absences was \$80,231 and has been included in the personnel expenses. Such liability is recorded in the government-wide financial statements.

NOTE 6 – RETIREMENT PLAN

The Library is a participating employer in the County Employees' Retirement System (CERS), which is a cost sharing, multi-employer defined benefit plan. CERS provides retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Funding for the plan is provided through payroll withholding and contributions by the Library. Non-hazardous positions are withheld at the rate of 5% of the employee's total compensation subject to contribution. The Library contributed 18.36% for June 30, 2012.

The Library covered payroll for the years ending June 30, 2012 and 2011 was \$898,701 and \$755,812, respectively. The Library's contribution requirement for CERS for the years ending June 30, 2012 and 2011 were \$146,275, and \$114,615, respectively. This represents 100% of the required contribution.

Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents. The CERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 7 – 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, 2012 was as follows:

Category 1	\$		-
Category 2	\$		1,948,913
Category 3	\$		-

NOTE 8 – BOND ISSUE SERIES 2006

During February 2006, the library issued a series of general obligation bonds to refund the Series 2000 Bonds used to fund the renovation of the Richmond building. The total face value of the bonds issued was \$2,740,000. The interest rate for the bonds issued varies from 3.625% to 4.25%. Interest is due semi-annually on June 1 and December 1. During the year ended June 30, 2012, there was a reduction in principal of \$80,000. All bonds will mature on December 1, 2030. The maturities of bonds payable of \$2,265,000 are summarized as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 2013	\$ 80,000	\$ 89,285	\$ 169,285
June 2014	85,000	86,284	171,284
June 2015	85,000	83,181	168,181
June 2016	90,000	79,965	169,965
June 2017	95,000	76,542	171,542
June 2018 – 2022	540,000	324,764	864,764
June 2023 – 2027	660,000	203,815	863,815
June 2028 – 2030	630,000	55,214	685,214
Less bond issue cost and discount	<u>(82,387)</u>	<u>-</u>	<u>(82,387)</u>
Total	<u>\$ 2,182,613</u>	<u>\$ 999,050</u>	<u>\$ 3,181,663</u>

NOTE 9 – BOND ISSUE SERIES 2006B

During October 2006, the library issued a series of general obligation bonds to fund the construction of the Berea building. The total face value of the bonds issued was \$3,440,000. The interest rate for the bonds issued varies from 3.65% to 4.00%. Interest is due semi-annually on August 1 and February 1. During the year ended June 30, 2012, there was a reduction in principal of \$135,000. All bonds will mature on December 1, 2027.

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 9 – BOND ISSUE SERIES 2006B (CONTINUED)

The maturities of bonds payable of \$2,800,000 are summarized as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 2013	\$ 140,000	\$ 109,558	\$ 249,558
June 2014	145,000	104,447	249,447
June 2015	150,000	99,155	249,155
June 2016	160,000	93,530	253,530
June 2017	165,000	87,530	252,530
June 2018 – 2022	920,000	337,060	1,257,060
June 2023 – 2027	1,120,000	138,000	1,258,000
Less bond issue cost and discount	(86,058)	-	(86,058)
Total	<u>\$ 2,713,942</u>	<u>\$ 969,280</u>	<u>\$ 3,683,222</u>

NOTE 10 – BOND ISSUANCE COSTS AND BOND DISCOUNTS

The Library incurred certain costs in relation to the 2006 and 2006B Series Bond Issues. These costs are shown netted against Bonds payable on the Statement of Net Assets. Both costs are amortized over the life of the bonds. Accumulated amortization as of June 30, 2012 for bond issue costs and discount were \$35,834 and \$25,822, respectively. The remaining amount of bond issue cost and discount as of June 30, 2012 is \$168,445.

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 – PROPERTY TAX CALENDAR

Property taxes for fiscal year 2012 were levied on October 1, 2011 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:

<u>Description</u>	<u>Date Per K.R.S. 134.020</u>
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.

NOTE 13 – SUBSEQUENT EVENTS

Management of the Organization has considered subsequent events through September 28, 2012, the date this report becomes available for issuance.

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 14 – INVESTMENTS

Investments are presented in the financial statements as of June 30, 2012 as current assets because they are available to meet current obligations. Investments consist of publicly traded bonds and notes. Market values and unrealized appreciation at June 30, 2012 are as follows:

<u>Type of Security</u>	<u>Cost</u>	<u>Market Value</u>	<u>Appreciation</u>
Bonds & Notes	\$ 1,583,428	\$ 1,638,023	\$ 54,595
	<u>\$ 1,583,428</u>	<u>\$ 1,638,023</u>	<u>\$ 54,595</u>

During the year ended June 30, 2012 the Organization realized gains of \$2,286 on the disposition of assets, and recognized unrealized gains totaling \$21,658.

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.

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, 2012 are as follows:

Fair Value Measurements at Reporting Date Using

<u>Description</u>	<u>June 30, 2012</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>
Trading Securities	\$ 1,638,023	\$ 132,189	\$ 1,505,834	\$ -

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

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 the financial statements of the governmental activities and each major fund of Madison County Public Library as of and for the year ended June 30, 2012, which collectively comprise the Library's basic financial statements and have issued our report thereon dated September 28, 2012. 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 Madison County Public Library is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Madison County Public Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Madison County Public 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.

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 certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as Finding 2012-1, that we consider to be a significant deficiency in internal control over financial reporting. 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 Madison County Public Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



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

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

Craft, Noble & Company, PLLC

Craft, Noble & Company, PLLC
September 28, 2012

MADISON COUNTY PUBLIC LIBRARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

B. FINDINGS- FINANCIAL STATEMENT AUDIT

2012-1

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 Organization 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. The Organization did not have effective procedures in place to ensure that all accruals and adjustments that are needed have been appropriately recorded. Additionally, the Organization's staff or contracted personnel did not collectively possess a full working knowledge of generally accepted accounting principles.

Organization Response and Corrective Action Plan:

It does not appear that it would be economically feasible for our Organization to enlarge our staff or contract an individual with appropriate skill and knowledge in applying new authoritative guidance. Thus, it is important that our Board provide oversight and independent review functions.

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