

MADISON COUNTY PUBLIC LIBRARY
FINANCIAL STATEMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2013



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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, 2013, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2013, 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.



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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 6 and page 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2013 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
October 9, 2013

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, 2013. Please read this MD&A in conjunction with the Library's Financial Statements, which follow.

Financial Highlights

- I. The Library spent approximately 13% of its tax revenues on Library Materials.*
- II. While tax rates remained the same as the previous year, the Library's income from property tax increased 5.6% from the previous fiscal year, due to growth in the local tax base.*
- 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 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, 2013 and 2012.

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Variance</u>
Capital assets, net of depreciation	\$ 6,168,396	\$ 6,336,927	\$ (168,531)
Other assets	3,653,390	3,867,644	(214,254)
Long-term liabilities	3,712,815	4,751,286	(1,038,471)
Current liabilities	343,759	309,264	34,495
Unrestricted net assets	3,538,910	5,144,021	(1,605,111)

The Library's main source of revenue is property tax, which is approximately 94% 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, on par with the state average. Personnel expenditures increased about 3.6% from the previous year. This increase included the addition of several PT staff and the creation of new positions as part of a complete organizational restructuring in 2013.

Financial Analysis of the Library as a Whole (Continued)

Revenue and Expense Comparison for the years ended:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Variance</u>
Taxing district revenues	\$ 2,955,582	\$ 2,797,623	\$ 157,959
Grant revenues	48,180	74,067	(25,887)
Investment income	20,962	86,317	(65,355)
Public support	30,486	14,074	16,412
Other revenues	81,219	74,105	7,114
Total revenues	<u>3,136,429</u>	<u>3,046,186</u>	<u>90,243</u>
Personnel expenses	1,314,357	1,268,284	46,073
Library materials	382,926	364,809	18,117
Telephone and utilities	68,816	59,336	9,480
Insurance	30,214	30,494	(280)
Public relations	20,130	15,849	4,281
Programming	31,337	23,639	7,698
Office supplies	15,867	15,083	784
Postage	10,026	13,304	(3,278)
Legal and accounting	19,962	24,113	(4,151)
Summer reading	13,412	14,361	(949)
Van and bookmobile operations	13,068	11,314	1,754
Staff education and dues	16,255	11,211	5,044
Computer expenses	59,586	42,440	17,146
Telecommunication	7,690	6,596	1,094
Amortization	11,775	10,179	1,596
Other expenses	243	10,869	(10,626)
Grounds maintenance	11,738	10,387	1,351
Building maintenance	54,085	61,344	(7,259)
Maintenance supplies	18,885	14,567	4,318
Equipment repairs and rental	22,014	22,101	(87)
Interest	167,828	206,637	(38,809)
Moving expenses	-	-	-
Depreciation	225,024	222,867	2,157
Total expenditures	<u>2,515,238</u>	<u>2,459,784</u>	<u>55,454</u>
Change in fund balance	<u>\$ 621,191</u>	<u>\$ 586,402</u>	<u>\$ 34,789</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. In Richmond, the building was re-keyed with a hierarchical key structure. A door was added to better secure staff areas. In Berea, an existing 3-ton HVAC unit was replaced with a 4-ton unit to improve heating and cooling. Renovation of the public computer area in Richmond began with the ordering of new computer workstations. Other capital expenditures included new shelving in many areas, new tables, a portable sound system for library programming, a new DVD drop, book display units, and replacement staff chairs. An unforeseen capital expense was created when a large hole developed under the parking lot in Richmond in late summer 2012. The hole had to be excavated to determine the cause, then refilled and the blacktop replaced. The cause was determined to be erosion.

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 2013 – 2012

	<u>Budgeted</u>	<u>Actual Amount</u>	<u>Difference</u>
Net Revenue	\$ 2,869,854	\$ 3,136,429	\$ 266,575
Library Materials	320,000	317,553	2,447
Circulation/Processing	73,000	65,373	7,627
Technology	68,500	67,275	1,225
Employee Expenses	1,335,931	1,314,357	21,574
Operating Expenses	336,600	316,486	20,114
Bookmobile/Van	27,000	13,068	13,932
Education/Travel	14,000	16,255	(2,255)
Other Expenses	<u>694,823</u>	<u>444,569</u>	<u>250,254</u>
Total Budgeted	<u>\$ -</u>	<u>\$ 581,493</u>	<u>\$ 581,493</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.

In November 2012, Moody's Investors Service upgraded the Madison County Public Library District's bond rating from A1 to Aa2. That upgraded rate was reiterated in March 2013 when the Library Board was investigating the feasibility of refunding the bonds on the Berea facility. According to the report from Moody's, "The upgrade to Aa2 reflects the sound financial operations of the district that has led to consistent growth in general fund reserve levels, while maintaining a minimal direct debt burden. The rating also incorporates a sizeable tax base that has experienced steady assessed valuation increases. Additionally, strong fiscal and strategic management has contributed to a resilient system characterized by ample reserves, and diversification in service offerings."

In the spring of 2013, the Library Board voted to refund the bonds on the Berea facility. This activity included a \$750,000 pay-down on principal and a reduced interest rate on the remaining amount owed.

Economic Factors and Next Year's Budget

The Library considered many factors when setting the fiscal year 2014 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. The Library anticipates the need for expanded and improved library service according to its strategic plan. For FY14, this plan includes acquisition of property adjacent to the Richmond library location to create additional public parking space and countywide staff offices. This will also enable the expansion of public use space in the Richmond building.

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, Jim Davis.

Madison County Public Library
Statement of Net Position
June 30, 2013

Assets

Current Assets:

Cash and cash equivalents	\$	1,923,923
Investments		1,656,389
Accounts receivable		53,405
Total Current Assets		3,633,717

Fixed Assets:

Depreciable buildings, property and equipment, net of depreciation		5,682,714
Land		485,682
Total Fixed Assets		6,168,396

Total Assets	\$	9,802,113
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Deferred Outflows of Resources

Prepaid expenses	\$	19,673
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Liabilities and Net Position

Liabilities:

Current Liabilities:

Accounts payable	\$	25,203
Interest payable		18,056
Current portion of bonds payable		295,000
Current portion of compensated absences		5,500
Total Current Liabilities		343,759

Long-Term Obligations:

Compensated absences		65,721
Bonds payable net of bond issue cost and discount of \$447,906		3,647,094
Total Long-Term Obligations		3,712,815

Total Liabilities		4,056,574
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Net Position:

Invested in fixed assets, net of related debt		2,226,302
Unrestricted		3,538,910
		5,765,212

Total Net Position		5,765,212
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Total Liabilities and Net Position	\$	9,821,786
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The accompanying notes are an integral part of these financial statements.

Madison County Public Library
Statement of Activities
For The Year Ended June 30, 2013

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	\$(2,515,238)	69,814	78,666	\$ (2,366,758)
General Revenues:				
			Taxing district revenues	\$ 2,955,582
			Investment income	20,962
			Other income	11,405
			Total general revenues	2,987,949
			Change in net position	621,191
			Net position - beginning	5,144,021
			Net position - ending	\$ 5,765,212

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

Madison County Public Library
Balance Sheet
Governmental Fund
June 30, 2013

	Governmental Fund
Assets	
Cash and cash equivalents	\$ 1,923,923
Investments	1,656,389
Accounts receivable	53,405
Total Assets	\$ 3,633,717
 Deferred Outflows of Resources	
Prepaid expenses	\$ 19,673
 Liabilities and Fund Balances	
Liabilities	
Accounts payable	\$ 25,203
Compensated absences	5,500
Total Liabilities	\$ 30,703
 Fund Balances	
Nonspendable	\$ 19,673
Committed - contingency fund	1,087,516
Committed - capital development fund	400,000
Assigned - depreciation fund	400,000
Unassigned	1,715,498
Total Fund Balances	\$ 3,622,687
 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	\$ 6,168,396
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	(4,025,871)
Net position of governmental activities	\$ 5,765,212

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, 2013

	Governmental Fund
Revenues	
Taxing district revenues	\$ 2,955,582
Grant revenues	48,180
Investment income	20,962
Public support	30,486
Other revenues	81,219
	3,136,429
Expenditures	
Current	
Personnel expenses	1,314,357
Library materials	382,926
Telephone and utilities	68,816
Insurance	30,214
Public relations	20,130
Programming	31,337
Office supplies	15,867
Postage	10,026
Legal and accounting	19,962
Summer reading	13,412
Van and bookmobile operations	13,068
Staff education and dues	16,255
Computer expenses	59,586
Telecommunication	7,690
Other expenses	243
Grounds maintenance	11,738
Building maintenance	54,085
Maintenance supplies	18,885
Equipment repairs and rental	22,014
	2,110,611
Operating capital outlays	56,497
Debt Service	
Principal	220,000
Interest	167,828
	2,554,936
Excess of Revenues over Expenditures	581,493
Other Financing Sources (Uses)	
Proceeds from Long-Term Debt Issued	2,205,000
Discount and Issue Costs on Long-Term Debt Issued	(109,170)
Premium on Long-Term Debt Issued	43,705
Payments to Refunding Bond Agent	(2,929,555)
	(790,020)
Net change in fund balance	(208,527)
Fund balance - beginning	3,831,214
Fund balance - ending	\$ 3,622,687

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, 2013

Reconciliation to the Statement of Activities:

Net Change in Fund Balance - Governmental Fund	\$	(208,527)
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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.

Capital Outlay		56,497
Depreciation Expense		(225,024)
Amortization Expense		(11,775)

Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position		220,000
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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		(2,205,000)
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Payments to Refunding Bond Agent is an other financing use in the government funds, but the disbursement decreases long-term liabilities in the Statement of Net Position		2,929,555
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Premiums on Long-Term Debt Issue is an other financing source in the government funds, but the receipt increases long-term liabilities in the Statement of Net Position		(43,705)
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Discounts and Issuance Costs on Long-term Debt Issue is an other financing use in the government funds, but the disbursement decreases long-term liabilities in the Statement of Net Position		109,170
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Change in Net Position of Governmental Activities	\$	<u>621,191</u>
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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, 2013

Revenues	Enacted Budget	Actual	Favorable (Unfavorable) Variance
Taxing district revenues	\$ 2,748,999	\$ 2,955,582	\$ 206,583
Grant revenues	37,000	48,180	11,180
Investment income	5,000	20,962	15,962
Public support	5,000	30,486	25,486
Other revenues	73,855	81,219	7,364
Total Revenues	<u>2,869,854</u>	<u>3,136,429</u>	<u>266,575</u>
Expenditures			
Current			
Personnel expenses	1,335,931	1,314,357	21,574
Library materials	393,000	382,926	10,074
Telephone and utilities	63,000	68,816	(5,816)
Insurance	30,000	30,214	(214)
Public relations	17,000	20,130	(3,130)
Programming	28,600	31,337	(2,737)
Office supplies	21,000	15,867	5,133
Postage	20,000	10,026	9,974
Legal and accounting	23,000	19,962	3,038
Summer reading	13,000	13,412	(412)
Van and bookmobile operations	27,000	13,068	13,932
Staff education and dues	14,000	16,255	(2,255)
Computer expenses	58,500	59,586	(1,086)
Telecommunication	10,000	7,690	2,310
Other expenses	196,000	243	195,757
Grounds maintenance	13,000	11,738	1,262
Building maintenance	72,000	54,085	17,915
Maintenance supplies	17,000	18,885	(1,885)
Equipment repairs and rental	19,000	22,014	(3,014)
Total Current Expenditures	<u>2,371,031</u>	<u>2,110,611</u>	<u>260,420</u>
Operating capital outlays	80,000	56,497	23,503
Debt Service			
Debt service on bond issue	418,823	387,828	30,995
Total Expenditures	<u>2,869,854</u>	<u>2,554,936</u>	<u>314,918</u>
Other Financing Sources (Uses)			
Proceeds from Long-Term Debt Issued	-	2,205,000	2,205,000
Discount/Issuance Costs on Long-Term Debt Issued	-	(109,170)	(109,170)
Premium on Long-Term Debt Issued	-	43,705	43,705
Payments to Refunding Bond Agent	-	(2,929,555)	(2,929,555)
Total Other Financing Sources and (Uses)	<u>-</u>	<u>(790,020)</u>	<u>(790,020)</u>
Net change in fund balance	-	(208,527)	(208,527)
Fund balance - beginning	3,831,214	3,831,214	
Fund balance - ending	<u>\$ 3,831,214</u>	<u>\$ 3,622,687</u>	

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

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

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, 2013

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, 2013 was \$225,024.

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, 2013 fund balances are comprised of the following:

	<u>General Fund</u>
Nonspendable	\$ 19,673
Committed - Contingency fund	\$ 1,087,516
Committed - Capital development fund	\$ 400,000
Assigned - Depreciation fund	\$ 400,000
Unassigned	\$ 1,715,498

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

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 – 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, 2013 was as follows:

Category 1	\$	250,314
Category 2	\$	1,673,609
Category 3	\$	-

NOTE 3 – INVESTMENTS

Investments are presented in the financial statements as of June 30, 2013 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, 2013 are as follows:

<u>Type of Security</u>	<u>Cost</u>	<u>Market Value</u>	<u>Appreciation</u>
Bonds & Notes	\$ 1,638,284	\$ 1,656,389	\$ 18,105
	\$ 1,638,284	\$ 1,656,389	\$ 18,105

During the year ended June 30, 2013 the Organization realized losses of \$16,544 on the disposition of assets, and recognized unrealized losses totaling \$56,542.

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.

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

NOTE 3 – INVESTMENTS (CONTINUED)

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, 2013 are as follows:

<u>Fair Value Measurements at Reporting Date Using</u>				
<u>Description</u>	<u>June 30, 2013</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	\$ 1,656,389	\$ 130,360	\$ 1,526,029	\$ -

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, 2013 was as follows:

<u>Governmental Activities</u>	<u>July 1, 2012</u>	<u>Additions</u>	<u>June 30, 2013</u>
Land	\$ 471,193	\$ 14,489	\$ 485,682
Buildings	6,723,380	21,617	6,744,997
Furniture and equipment	<u>1,007,721</u>	<u>20,391</u>	<u>1,028,112</u>
Total at historical cost	<u>8,202,294</u>	<u>56,497</u>	<u>8,258,791</u>
Less: Accumulated Depreciation			
Buildings	1,213,480	168,310	1,381,790
Furniture and equipment	<u>651,887</u>	<u>56,718</u>	<u>708,605</u>
Total accumulated depreciation	<u>1,865,367</u>	<u>225,028</u>	<u>2,090,395</u>
Capital assets – net	<u>\$ 6,336,927</u>	<u>\$ (168,531)</u>	<u>\$ 6,168,396</u>

NOTE 5 – 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.

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

NOTE 5 – BOND ISSUE SERIES 2006 (CONTINUED)

The maturities of bonds payable of \$2,185,000 are summarized as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	100,000	72,860	172,860
June 2019 – 2023	560,000	301,358	861,358
June 2024 – 2028	685,000	176,215	861,215
June 2029 – 2031	485,000	31,556	516,556
Less bond issue cost and discount	<u>(77,702)</u>	<u>-</u>	<u>(77,702)</u>
Total	<u>\$ 2,107,298</u>	<u>\$ 907,961</u>	<u>\$ 3,015,259</u>

NOTE 6 – ADVANCED REFUNDINGS AND DEFEASANCES

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 \$2,205,000 are summarized as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 2014	\$ 210,000	\$ 31,962	\$ 241,962
June 2015	205,000	35,750	240,750
June 2016	210,000	33,700	243,700
June 2017	215,000	31,600	246,600
June 2018	215,000	27,300	242,300
June 2019 – 2023	1,150,000	70,000	1,220,000
Less bond issue cost and discount	<u>(370,204)</u>	<u>-</u>	<u>(370,204)</u>
Total	<u>\$ 1,834,796</u>	<u>\$ 230,312</u>	<u>\$ 2,065,108</u>

NOTE 7 – BOND ISSUANCE COSTS AND BOND DISCOUNTS

The Library incurred certain costs in relation to the 2006 and 2013 Series Bond Issues. These costs are shown netted against Bonds payable on the Statement of Net Position. Both costs are amortized over the life of the bonds. Accumulated amortization as of June 30, 2013 for these bond issue costs were \$73,430. The remaining amount of bond issue cost and discount as of June 30, 2013 is \$447,906.

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

NOTE 8 – 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, 2013 the liability for these absences was \$71,221 and has been included in the personnel expenses. Such liability is recorded in the government-wide financial statements.

NOTE 9 – 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, 2012	\$ 80,231	\$ 4,896,555	\$ 4,976,786
Net decrease in compensated absences	(9,010)	-	(9,010)
Debt issued, net	-	1,925,539	1,925,539
Debt retired	-	(2,880,000)	(2,880,000)
Payable at June 30, 2013	<u>\$ 71,221</u>	<u>\$ 3,942,094</u>	<u>\$ 4,013,315</u>

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

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 300,500	\$ 118,246	\$ 418,746
2015	290,000	118,931	408,931
2016	300,000	113,665	413,665
2017	310,000	108,143	418,143
2018	315,000	100,160	415,160
2019 - 2023	1,710,000	371,361	2,081,361
2024 - 2028	685,000	176,215	861,215
2029 - 2031	550,721	31,552	582,273
Less bond issue costs and discount	(447,906)	-	(447,906)
Totals	<u>\$ 4,013,315</u>	<u>\$ 1,138,273</u>	<u>\$ 5,151,588</u>

NOTE 10 – PROPERTY TAX CALENDAR

Property taxes for fiscal year 2013 were levied on October 1, 2012 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

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

NOTE 10 – PROPERTY TAX CALENDAR (CONTINUED)

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 11 – PUBLIC SUPPORT

Total public support (including Friends of the Madison County Public Library) \$30,486.

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 12 – 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 19.55% for June 30, 2013.

The Library covered payroll for the years ending June 30, 2013 and 2012 was \$911,076 and \$898,701, respectively. The Library's contribution requirements for CERS for the years ending June 30, 2013 and 2012 were \$148,082, and \$146,275, 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.

NOTE 13 – 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.

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

NOTE 14 – SUBSEQUENT EVENTS

In June 2012 the GASB approved a pair of related Statements that reflect substantial improvements to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans.

The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. It is designed to improve the decision - usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments. Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined.

Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined. Through its research, the GASB concluded that the needs of users of information regarding cost-sharing employers do not differ significantly from those interested in single and agent employers. Therefore, the GASB believes it is important to give users of the financial statements of cost-sharing employers access to better, more transparent financial information. Consequently, under the new standards the GASB is requiring that cost-sharing governments report a net pension liability, pension expense, and pension-related deferred inflows and outflows of resources based on their proportionate share of the collective mounts for all the governments in the plan.

Statement No. 67 will take effect for pension plans in fiscal years beginning after June 15, 2013.

Management of the Organization has considered subsequent events through October 9, 2013, 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, 2013, 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 October 9, 2013.

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 first 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described as finding 2013-1 in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency.

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
October 9, 2013

MADISON COUNTY PUBLIC LIBRARY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2013

FINDINGS- FINANCIAL STATEMENT AUDIT

2013-1

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. 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:

It does not appear that it would be economically feasible for our Library 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 Library's response and, accordingly, we express no opinion on it.