

MADISON COUNTY PUBLIC LIBRARY
FINANCIAL STATEMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2015



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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, 2015, 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, 2015, 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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Change in Accounting Principle

As described in Note 2 to the financial statements, in 2015, the Library adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of proportionate share of the net pension liability, and the schedule of pension contributions on pages 3 through 6, page 13, and pages 28 through 29 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 December 11, 2015 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
December 11, 2015

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, 2015. Please read this MD&A in conjunction with the Library's Financial Statements, which follow.

Financial Highlights

- I. The Library spent approximately 17% of its tax revenues on Library Materials.*
- II. The Library Board of Trustees reduced the personal property tax rate, and the Library's income from property tax increased 2% from the previous fiscal year.*
- III. The Library continues to spend on improved equipment and improved services.*

Overview of the Financial Statements

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

Required Financial Statements

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

Government-Wide Statements

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

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

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

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

Fund Financial Statements

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

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

Financial Analysis of the Library as a Whole

Below is an analysis of the comparative statement of net assets for the years ending June 30, 2015 and 2014:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Variance</u>
Capital assets, net of depreciation	\$ 6,210,718	\$ 6,277,678	\$ (66,960)
Other assets	3,477,211	3,489,101	(11,890)
Deferred outflows	137,611	32,168	105,443
Long-term liabilities	4,815,475	3,868,701	946,774
Current liabilities	319,168	335,241	(16,073)
Deferred inflows	110,400	-	110,400
Invested in fixed assets,	2,405,718	2,182,678	223,040
Unrestricted net position	2,174,779	3,412,327	(1,237,548)

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 61% of total operating expenditures -- on par with the state average of 63%. Personnel expenditures increased about 6% from the previous year. This increase included the addition of several PT staff and the creation of new positions in support of overall growth of the organization.

Financial Analysis of the Library as a Whole (Continued)

Revenue and Expense Comparison for the years ended:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Variance</u>
Taxing district revenues	\$ 2,825,527	\$ 2,766,596	\$ 58,931
Grant revenues	41,144	49,106	(7,962)
Investment income	26,736	3,021	23,715
Public support	26,145	9,019	17,126
Other revenues	144,049	137,705	6,344
Total revenues	<u>3,063,601</u>	<u>2,965,447</u>	<u>98,154</u>
Personnel expenses	1,498,102	1,407,382	90,720
Library materials	476,209	446,838	29,371
Telephone and utilities	55,750	56,107	(357)
Insurance	39,386	30,823	8,563
Public relations	32,683	33,701	(1,018)
Programming	37,612	33,012	4,600
Office supplies	26,411	19,505	6,906
Postage	4,428	7,943	(3,515)
Legal and accounting	24,759	18,313	6,446
Summer reading	30,663	22,863	7,800
Van and bookmobile operations	21,104	20,568	536
Staff education and dues	17,057	16,535	522
Computer expenses	14,992	59,314	(44,322)
Telecommunication	10,121	9,542	579
Other expenses	15,442	32,732	(17,290)
Grounds maintenance	14,794	13,593	1,201
Building maintenance	75,902	50,570	25,332
Maintenance supplies	22,628	17,788	4,840
Equipment repairs and rental	26,440	25,403	1,037
Outside services	-	19,173	(19,173)
Interest	120,695	119,340	1,355
Depreciation	236,847	226,702	10,145
Total expenditures	<u>2,802,025</u>	<u>2,687,747</u>	<u>114,278</u>
Change in net position	<u>\$ 261,576</u>	<u>\$ 277,700</u>	<u>\$ (16,124)</u>

Capital Asset Activity

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

The Richmond Annex project was completed in the spring of 2015, adding much needed parking to the Richmond location, as well as enclosed parking for library vehicles. The Annex building now houses several countywide offices, including Technical Services; Outreach, Adult Programming, and Bookmobile; Resource Services; and some IT services. The Annex adds about 4,000 square feet of office space and 2,000 square feet of storage space.

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

In Spring 2015, the library began upgrading its infrastructure to support a 50 mbps dedicated fiber internet connection. This work included all three buildings. The phone system was also upgraded to connect all three locations.

Capital Asset Activity(Continued)

The library also added dozens of shelving ranges in both buildings to accommodate more books and materials for public use.

Finally, the library board contracted with 5253 Design Group to undertake a year-long planning process to develop the library's first long-range plan for facility growth. In conjunction with this planning process, the library's administrative and management staff worked with community members, partners, and stakeholders to develop a new three-year strategic plan for the library. The previous five-year plan ended June 30, 2015. The staff felt a three-year plan would enable the library to be more nimble in adjusting its service model to keep up with new community needs and the fast-paced development of technology.

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 2015 – 2014		
	<u>Budgeted</u>	<u>Actual Amount</u>	<u>Difference</u>
Net Revenue	\$ 3,099,966	\$ 3,063,601	\$ (36,365)
Personnel expenses	1,567,033	1,564,313	2,720
Library Materials	430,721	476,209	(45,488)
Telephone and utilities	69,000	55,750	13,250
Insurance	34,000	39,386	(5,386)
Public relations	30,000	32,683	(2,683)
Programming	32,000	37,612	(5,612)
Office supplies	18,000	26,411	(8,411)
Postage	10,000	4,428	5,572
Legal and accounting	24,000	24,759	(759)
Summer reading	16,000	30,663	(14,663)
Van and bookmobile operations	26,000	21,104	4,896
Staff education and dues	20,000	17,057	2,943
Computer expenses	65,000	14,992	50,008
Telecommunication	-	10,121	(10,121)
Other expenses	10,000	15,442	(5,442)
Grounds maintenance	16,000	14,794	1,206
Building Maintenance	70,000	75,902	(5,902)
Maintenance supplies	17,000	22,628	(5,628)
Equipment repairs and rental	24,000	26,440	(2,440)
Capital outlays	207,966	169,887	38,079
Debt service on bond issue	<u>413,246</u>	<u>410,695</u>	<u>2,551</u>
Total Budgeted	<u>\$ -</u>	<u>\$ (27,675)</u>	<u>\$ (27,675)</u>

Debt Administration

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

Economic Factors and Next Year's Budget

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

Contacting the Library Management

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

Madison County Public Library
Statement of Net Position
June 30, 2015

Assets

Current Assets:

Cash and cash equivalents	\$	1,688,846
Investments		1,722,028
Accounts receivable		49,461
Prepaid expenses		16,876
Total Current Assets		3,477,211

Fixed Assets:

Depreciable buildings, property and equipment, net of depreciation		5,725,036
Land		485,682
Total Fixed Assets		6,210,718

Total Assets	\$	9,687,929
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Deferred Outflows of Resources:

Subsequent pension contributions	\$	137,611
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Liabilities and Net Position

Liabilities:

Current Liabilities:

Accounts payable	\$	6,940
Interest payable		6,728
Current portion of bonds payable		300,000
Current portion of compensated absences		5,500
Total Current Liabilities		319,168

Long-Term Obligations:

Compensated absences		73,390
Net pension liability		1,237,085
Bonds payable		3,505,000
Total Long-Term Obligations		4,815,475

Total Liabilities	\$	5,134,643
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Deferred Inflows of Resources:

Difference between projected and actual pension earnings	\$	110,400
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Net Position:

Invested in fixed assets		2,405,718
Unrestricted		2,174,779
		4,580,497

Total Net Position	\$	4,580,497
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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, 2015

Functions/Programs	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u> <u>Primary Government</u>
Governmental activities				
Cultural and recreations	\$ (2,802,025)	84,038	67,289	\$ (2,650,698)
General Revenues:				
			Taxing district revenues	\$ 2,825,527
			Investment income	26,736
			Other income	60,011
			<u>Total general revenues</u>	<u>2,912,274</u>
			Change in net position	261,576
			Net position - as restated	4,318,921
			<u>Net position - ending</u>	<u>\$ 4,580,497</u>

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

Madison County Public Library
Balance Sheet
Governmental Fund
June 30, 2015

	Governmental Fund
Assets	
Cash and cash equivalents	\$ 1,688,846
Investments	1,722,028
Accounts receivable	49,461
Prepaid expenses	16,876
Total Assets	\$ 3,477,211
Liabilities	
Accounts payable	\$ 6,940
Compensated absences	5,500
Total Liabilities	\$ 12,440
Fund Balances	
Nonspendable	\$ 16,876
Committed - contingency fund	1,310,243
Committed - capital development fund	262,034
Assigned - depreciation fund	400,000
Unassigned	1,475,618
Total Fund Balances	\$ 3,464,771
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	\$ 6,210,718
Deferred outflows, inflows, and net pension liability related to the implementation of GASB 68 which are not receivable or payable in the current period and therefore, not reported in the fund	(1,209,874)
Certain liabilities (including net bonds and notes payable, capital leases and compensated absences) are not due and payable in the current period and therefore, not reported in the fund	(3,885,118)
Net position of governmental activities	\$ 4,580,497

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, 2015

	Governmental Fund
Revenues	
Taxing district revenues	\$ 2,825,527
Grant revenues	41,144
Investment income	26,736
Public support	26,145
Other revenues	144,049
	3,063,601
Expenditures	
Current	
Personnel expenses	1,564,313
Library materials	476,209
Telephone and utilities	55,750
Insurance	39,386
Public relations	32,683
Programming	37,612
Office supplies	26,411
Postage	4,428
Legal and accounting	24,759
Summer reading	30,663
Van and bookmobile operations	21,104
Staff education and dues	17,057
Computer expenses	14,992
Telecommunication	10,121
Other expenses	15,442
Grounds maintenance	14,794
Building maintenance	75,902
Maintenance supplies	22,628
Equipment repairs and rental	26,440
	2,510,694
Total Current Expenditures	2,510,694
Operating capital outlays	169,887
Debt Service	
Principal	290,000
Interest	120,695
Total Expenditures	3,091,276
Net change in fund balance	(27,675)
Fund balance - beginning	3,492,446
Fund balance - ending	\$ 3,464,771

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, 2015

Reconciliation to the Statement of Activities:

Net Change in Fund Balance - Governmental Fund	\$	(27,675)
<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		169,887
Depreciation Expense		(236,847)
<p>Governmental Funds report actual pension contributions of \$137,611. However, the Statement of Net Position reports pension expense calculated pursuant to GASB 68 of \$71,400.</p>		
		66,211
<p>Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position</p>		290,000
Change in Net Position of Governmental Activities	\$	261,576

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, 2015

Revenues	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance
Taxing district revenues	\$ 2,950,000	\$ 2,950,000	\$ 2,825,527	\$ (124,473)
Grant revenues	47,000	47,000	41,144	(5,856)
Investment income	5,000	5,000	26,736	21,736
Public support	8,000	8,000	26,145	18,145
Other revenues	82,000	89,966	144,049	54,083
Total Revenues	<u>3,092,000</u>	<u>3,099,966</u>	<u>3,063,601</u>	<u>(36,365)</u>
Expenditures				
Current				
Personnel expenses	1,567,033	1,567,033	1,564,313	2,720
Library materials	495,721	495,721	476,209	19,512
Telephone and utilities	69,000	69,000	55,750	13,250
Insurance	34,000	34,000	39,386	(5,386)
Public relations	30,000	30,000	32,683	(2,683)
Programming	32,000	32,000	37,612	(5,612)
Office supplies	18,000	18,000	26,411	(8,411)
Postage	10,000	10,000	4,428	5,572
Legal and accounting	24,000	24,000	24,759	(759)
Summer reading	16,000	16,000	30,663	(14,663)
Van and bookmobile operations	26,000	26,000	21,104	4,896
Staff education and dues	20,000	20,000	17,057	2,943
Computer expenses	-	-	14,992	(14,992)
Telecommunication	-	-	10,121	(10,121)
Other expenses	10,000	10,000	15,442	(5,442)
Grounds maintenance	16,000	16,000	14,794	1,206
Building maintenance	70,000	70,000	75,902	(5,902)
Maintenance supplies	17,000	17,000	22,628	(5,628)
Equipment repairs and rental	24,000	24,000	26,440	(2,440)
Total Current Expenditures	2,478,754	2,478,754	2,510,694	(31,940)
Operating capital outlays	200,000	207,966	169,887	38,079
Debt Service				
Debt service on bond issue	413,246	413,246	410,695	2,551
Total Expenditures	<u>3,092,000</u>	<u>3,099,966</u>	<u>3,091,276</u>	<u>8,690</u>
Net change in fund balance	-	-	(27,675)	(27,675)
Fund balance - beginning	3,831,214	3,831,214	3,492,446	
Fund balance - ending	<u>\$ 3,831,214</u>	<u>\$ 3,831,214</u>	<u>\$ 3,464,771</u>	

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

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015

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, 2015 was \$236,847.

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, 2015 fund balances are comprised of the following:

	<u>General Fund</u>
Nonspendable	\$ 16,876
Committed - Contingency fund	\$ 1,310,243
Committed - Capital development fund	\$ 262,034
Assigned - Depreciation fund	\$ 400,000
Unassigned	\$ 1,475,618

Use of Estimates

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

MADISON COUNTY PUBLIC LIBRARY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement Plan

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

NOTE 2- CHANGE IN ACCOUNTING PRINCIPAL

The Library adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, for the year ending June 30, 2015. This guidance changed how governments calculate and report the costs and obligations associated with pensions. It is designed to improve the decision – usefulness of reported pension information and increase the transparency, consistency, and comparability of pension information across governments.

NOTE 3 – 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, 2015 was as follows:

Category 1	\$	251,068
Category 2	\$	1,437,778
Category 3	\$	-

NOTE 4 – INVESTMENTS

Investments are presented in the financial statements as of June 30, 2015 as current assets because they are available to meet current obligations. Investments consist of publicly traded bonds and notes. Market values and unrealized depreciation at June 30, 2015 are as follows:

<u>Type of Security</u>	<u>Cost</u>	<u>June 30, 2015 Market Value</u>	<u>Unrealized Depreciation</u>
Bonds & Notes	\$ 1,732,476	\$ 1,722,028	\$ (10,448)
	<u>\$ 1,732,476</u>	<u>\$ 1,722,028</u>	<u>\$ (10,448)</u>

During the year ended June 30, 2015 the Organization recognized unrealized gains totaling \$2,432.

Fair Value Measurements

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

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 4 – INVESTMENTS (CONTINUED)

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

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

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

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

Fair value of assets and liabilities measured on a recurring basis at June 30, 2015 are as follows:

Fair Value Measurements at Reporting Date Using

<u>Description</u>	<u>June 30, 2015</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	\$ 1,722,028	\$ 254,516	\$ 1,467,512	\$ -

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

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015 was as follows:

<u>Governmental Activities</u>	<u>July 1, 2014</u>	<u>Additions</u>	<u>June 30, 2015</u>
Land	\$ 485,682	\$ -	\$ 485,682
Buildings	7,038,010	154,821	7,192,831
Furniture and equipment	1,071,083	15,066	1,086,149
Total at historical cost	<u>8,594,775</u>	<u>169,887</u>	<u>8,764,662</u>
Less: Accumulated Depreciation			
Buildings	1,555,884	178,867	1,734,751
Furniture and equipment	761,213	57,980	819,193
Total accumulated depreciation	<u>2,317,097</u>	<u>236,847</u>	<u>2,553,944</u>
Capital assets – net	<u>\$ 6,277,678</u>	<u>\$ (66,960)</u>	<u>\$ 6,210,718</u>

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 6 – 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 \$2,015,000 are summarized as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	105,000	68,914	173,914
June 2020	110,000	64,775	174,775
June 2021 – 2025	605,000	254,923	859,923
June 2026 – 2030	740,000	116,908	856,908
June 2031	170,000	3,613	173,613
Total	<u>\$ 2,015,000</u>	<u>\$ 738,500</u>	<u>\$ 2,753,500</u>

NOTE 7 – 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 \$1,790,000 are summarized as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	220,000	23,000	243,000
June 2020 – 2023	225,000	18,600	243,600
June 2021 – 2022	705,000	28,400	733,400
Total	<u>\$ 1,790,000</u>	<u>\$ 162,600</u>	<u>\$ 1,952,600</u>

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, 2015 the liability for these absences was \$78,891 and has been included in the personnel expenses. Such liability is recorded in the government-wide financial statements.

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2014	\$ 69,201	\$ 4,095,000	\$ 4,164,201
Net increase in compensated absences	9,689	-	9,689
Debt retired	-	(290,000)	(290,000)
Payable at June 30, 2015	<u>\$ 78,890</u>	<u>\$ 3,805,000</u>	<u>\$ 3,883,890</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>
2016	\$ 305,500	\$ 113,665	\$ 419,165
2017	310,000	108,142	418,142
2018	315,000	100,160	415,160
2019	325,000	91,914	416,914
2020	335,000	83,375	418,375
2021 - 2025	1,310,000	283,323	1,593,323
2026 - 2030	740,000	116,908	856,908
2031	243,390	3,613	247,003
Totals	<u>\$ 3,883,890</u>	<u>\$ 901,100</u>	<u>\$ 4,784,990</u>

NOTE 10 – PROPERTY TAX CALENDAR

Property taxes for fiscal year 2015 were levied on October 1, 2014 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 11 – PUBLIC SUPPORT

Total public support (including Friends of the Madison County Public Library): \$ 26,145

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.

MADISON COUNTY PUBLIC LIBRARY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2015

NOTE 12 – RETIREMENT PLAN

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

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

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

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

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

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

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

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

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 12 – RETIREMENT PLAN (CONTINUED)

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

At June 30, 2015, the Library reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the Library as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the Library were as follows:

Library's proportionate share of the CERS net pension liability	\$	1,237,085
Commonwealth's proportionate share of the CERS net pension liability associated with the Library		3,243,139,915
	\$	3,244,377,000

The net pension liability for each plan was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The Library's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the Library's proportion was 0.038141% percent.

For the year ended June 30, 2015, the Library recognized pension expense of \$71,400 related to CERS. At June 30, 2014, the Library reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on Plan investments	-	110,400
Changes in proportion and differences between Company contributions and proportionate share of contributions	-	-
Library contributions subsequent to the measurement date	137,611	-
Total	\$ 137,611	\$ 110,400

The \$137,611 reported as deferred outflows of resources related to pensions resulting from Library contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year ending June 30,	
2016	\$ (27,600)
2017	(27,600)
2018	(27,600)
2019	(27,600)

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 12 – RETIREMENT PLAN (CONTINUED)

Actuarial assumptions—The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.50%, average, including inflation
Investment rate of return	7.75%, net of Plan investment expense, including inflation

For CERS, Mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.50%
Private Equity	7%	11.25%
Real Estate	5%	7.00%
Core US Fixed Income	10%	5.25%
High Yield US Fixed Income	5%	7.25%
Non US Fixed Income	5%	5.50%
Commodities	5%	7.75%
TIPS	5%	5.00%
Cash	1%	3.25%
Total	100%	

Discount rate—For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

MADISON COUNTY PUBLIC LIBRARY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2015

NOTE 12 – RETIREMENT PLAN (CONTINUED)

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

	Discount rate	Library’s proportionate share of net pension liability
1% decrease	6.75%	\$ 1,628,383
Current discount rate	7.75%	\$ 1,237,085
1% increase	8.75%	\$ 892,025

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

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.

NOTE 14 – RESTATEMENT OF BEGINNING NET POSITION

Effective July 1, 2014, the Library was required to adopt Governmental Accounting Standards Board (GASB) Statement no. 68, “Accounting and Financial Reporting for Pensions” (GASB 68). GASB 68 replaced the requirements of GASB 27, “Accounting for Pensions by State and Local Governmental Employers” and GASB 50, “Pension Disclosures”, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the Library, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

GASB 68 required retrospective application. Since the Library only presents one year of financial information, the beginning net pension was adjusted to reflect the retrospective application. The adjustment resulted in a \$1,276,085 reduction in beginning net position on the Statement of Activities.

Ending Net Position as reported on 2014 Audit	\$ 5,595,006
Adjustment due to implementation of GASB 68	(1,276,085)
Restated beginning Net Position	\$ 4,318,921

NOTE 15 – SUBSEQUENT EVENTS

Management of the Organization has considered subsequent events through December 11, 2015, 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, 2015, 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 December 11, 2015.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (2015-1).

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control that we consider to be significant deficiencies.

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
December 11, 2015

MADISON COUNTY PUBLIC LIBRARY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2015

FINDINGS- FINANCIAL STATEMENT AUDIT

2015-1

Criteria:

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

Condition:

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

Cause:

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

Effect:

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

Organization Response and Corrective Action Plan:

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

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

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

	2015	2014
Library's proportion of the net pension liability	0.03%	0.03%
Library's proportionate share of the net pension liability	\$ 1,237,085	\$ 1,396,312
Library's covered employee payroll	\$ 1,100,050	\$ 997,020
Library's share of the net pension liability as a percentage of its covered employee payroll	112.46%	140.05%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	61.22%

Notes:

There were no changes in benefit terms, size or composition of the populatoin covered by the benefit terms, or the assumptions used in the last two fiscal years.

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

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required employer contribution	\$ 140,256	\$ 120,227	\$ 95,591
Contributions relative to contractually required employer contribution	<u>\$ 140,256</u>	<u>\$ 120,227</u>	<u>\$ 95,591</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Company's covered employee payroll	\$ 1,100,050	\$ 997,020	\$ 911,076
Employer contributions as a percentage of covered-employee payroll	12.75%	12.06%	10.49%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the last two fiscal years.

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