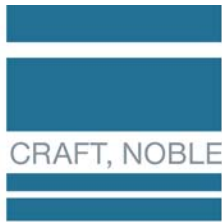


MADISON COUNTY PUBLIC LIBRARY
FINANCIAL STATEMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2018



CRAFT, NOBLE & COMPANY
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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, 2018, 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 an opinion 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 opinion.

Opinion

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, 2018, 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 discussed in Note 2 to the financial statements, in the year ended June 30, 2018, the Library adopted new accounting guidance, *GASB No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than 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, the schedule of pension contributions, the schedule of changes in benefits and assumptions- pension, schedule of proportionate share of the net OPEB liability, the schedule of OPEB contributions, and the schedule of changes in benefits and assumptions- OPEB on pages 3 through 6, and pages 28 through 34 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 August 31, 2018 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
August 31, 2018

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, 2018. Please read this MD&A in conjunction with the Library's Financial Statements, which follow.

Financial Highlights

- I. The Library spent approximately 11% of its tax revenues on Library Materials.*
- II. The Library Board of Trustees adopted the compensating rate, resulting in a real property tax rate increase over the prior year of 0.1 cent per \$100 of valuation. The Library's income from property tax increased 6.5% from the previous fiscal year.*
- III. The Library continues to spend on improved equipment, facilities, and 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

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 position of the Library and the changes in them. One can think of the Library's net position – 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 position 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 which 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 position for the years ending June 30, 2018 and 2017:

Capital assets, net of depreciation	\$ 7,319,898	\$ 6,092,012	\$ 1,227,886
Other assets	7,253,666	3,679,046	3,574,620
Deferred outflows	940,642	473,456	467,186
Long-term liabilities	10,225,906	5,548,076	4,677,830
Current liabilities	408,664	365,230	43,434
Deferred inflows	368,341	-	368,341
Invested in fixed assets	3,057,433	2,872,012	185,421
Unrestricted net position, as restated	1,453,862	1,459,196	(5,334)

Revenue and Expense Comparison for the years ended:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Variance</u>
Taxing district revenues	\$ 3,247,543	\$ 3,048,760	\$ 198,783
Grant revenues	35,930	154,419	(118,489)
Investment income	14,237	10,719	3,518
Public support	2,025	13,265	(11,240)
Other revenues	110,063	114,162	(4,099)
Total revenues	<u>3,409,798</u>	<u>3,341,325</u>	<u>68,473</u>
Personnel expenses	1,869,463	1,841,690	27,773
Library materials	351,330	446,517	(95,187)
Telephone and utilities	59,986	58,274	1,712
Insurance	47,391	43,397	3,994
Public relations	30,063	25,327	4,736
Programming	34,825	35,369	(544)
Office supplies	16,536	18,416	(1,880)
Postage	7,989	11,739	(3,750)
Legal and accounting	29,802	29,527	275
Summer reading	21,829	22,202	(373)
Van and bookmobile operations	19,016	13,828	5,188
Staff education and dues	26,176	21,326	4,850
Computer expenses	26,071	51,528	(25,457)
Telecommunication	48,175	30,264	17,911
Other expenses	30,723	14,102	16,621
Grounds maintenance	18,283	15,683	2,600
Building maintenance	84,284	69,679	14,605
Equipment repairs and rental	31,550		
Maintenance supplies	28,439	28,755	(316)
Bond issuance costs	34,816	25,936	8,880
Interest	176,079	72,276	103,803
Depreciation	<u>236,885</u>	<u>243,017</u>	<u>(6,132)</u>
Total expenditures	<u>3,229,711</u>	<u>3,118,852</u>	<u>79,309</u>
Change in net position	<u>\$ 180,087</u>	<u>\$ 222,473</u>	<u>\$ (10,836)</u>

The Library's main source of revenue is property tax, which is approximately 95% of the Library's total revenue. Other income sources included grants, donations, state aid, and fines and fees. The personnel expense represents 58% of total operating expenditures -- on par with the state average of 63%. Personnel expenditures increased about 1.5% from the previous year. This increase was a bit lower than prior years, mainly attributable to the retirement of two long-time employees. Offsetting that were increases in health insurance rates and employer contribution rates to the Kentucky Retirement System (County Employees Retirement System, or CERS), both of which are benefits provided to full-time employees. Additionally, the library started a new security program in Richmond in Spring 2018, adding three PT security officers.

Capital Asset Activity

The overwhelming majority of capital asset activity in FY18 was the beginning of the major construction/renovation project at the Richmond location. Construction began in Fall 2017 and is projected to be completed in Spring 2019. The expansion will double the size of the current building with a 3-story addition. The addition will comprise five new meeting rooms of various sizes, countywide service offices, Bookmobile garage and office, and a small storefront for the Friends of the Library. Further, major renovation of the existing building will provide expanded customer-use areas, including a maker space/digital services lab, genealogy/Kentucky history room, quiet study spaces, and a sunroom reading area.

The construction project brought about additional capital asset activity in Richmond primarily in the form of equipment and furnishing repair and replacement, including HVAC replacement.

Some new furnishings were added in both locations, and the lighting upgrade project continued in both locations. The Bookmobile had a new retractable step system installed to facilitate customer access. The security camera system (both cameras and DVRS) was upgraded and expanded significantly throughout the year in both locations.

Budget Highlights

The Library adopts an annual budget at the May or June 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, based on the KY Model 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 follows on the next page.

A summarized comparison of budget highlights is listed below:

Budget Comparison for 2018 – 2017			
	<u>Budgeted</u>	<u>Actual Amount</u>	<u>Difference</u>
Net Revenue abd debt proceeds	\$ 4,736,568	\$ 8,219,798	\$ 3,483,230
Personnel expenses	1,841,825	1,700,462	141,363
Library Materials	455,000	351,330	103,670
Telephone and utilities	73,500	59,986	13,514
Insurance	43,000	47,391	(4,391)
Public relations	32,000	30,063	1,937
Programming	38,000	34,825	3,175
Office supplies	18,000	16,536	1,464
Postage	7,200	7,989	(789)
Legal and accounting	27,000	29,802	(2,802)
Summer reading	23,000	21,829	1,171
Van and bookmobile operations	19,200	19,016	184
Staff education and dues	20,000	26,176	(6,176)
Computer expenses	72,500	26,071	46,429
Telecommunication	42,000	48,175	(6,175)
Other expenses	12,000	30,723	(18,723)
Grounds maintenance	17,000	18,283	(1,283)
Building Maintenance	65,000	84,284	(19,284)
Equipment repairs and rental	28,000	31,550	(3,550)
Maintenance supplies	18,000	28,439	(10,439)
Bond issuance costs	-	34,816	(34,816)
Capital outlays	1,328,143	1,464,771	(136,628)
Debt service on bond issue	556,200	515,557	40,643
Total Budgeted	<u>\$ -</u>	<u>\$ 3,591,724</u>	<u>\$ 3,591,724</u>

Debt Administration

The Library maintains a strict budget for the purpose of being able to meet their bond issue payments. These numbers are figured into the budget yearly. The library maintains restricted reserve accounts to meet replacement needs for equipment, cover at least six months of operation, and to save for future capital expansion and renovation. 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 2019 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 in both current locations 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.

As the library expansion project in Richmond reaches completion in Spring 2019, new staffing needs will be incorporated into the current and future budgets. These staffing areas relate to facilities management, custodial, and security.

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, 2018

Assets	
Cash and cash equivalents	\$ 5,343,767
Investments	1,800,836
Accounts receivable	36,057
Prepaid expenses	73,006
Fixed Assets:	
Depreciable buildings, property and equipment, net of depreciation	6,834,216
Land	485,682
Total Fixed Assets	<u>7,319,898</u>
Total Assets	<u>\$ 14,573,564</u>
Deferred Outflows of Resources:	
Subsequent pension contributions	\$ 194,986
Deferred outflows related to pensions	586,876
Deferred outflows related to OPEB	158,780
Total Deferred Outflows of Resources	<u>\$ 940,642</u>
Liabilities:	
Accounts payable	\$ 9,380
Interest payable	23,784
Current portion of bonds payable	370,000
Current portion of compensated absences	5,500
Long-Term Obligations:	
Compensated absences	72,540
Bonds payable	7,300,000
Net pension liability	2,123,656
Net OPEB liability	729,710
Total Long-Term Obligations	<u>10,225,906</u>
Total Liabilities	<u>\$ 10,634,570</u>
Deferred Inflows of Resources:	
Deferred inflows related to pensions	\$ 330,135
Deferred inflows related to OPEB	38,206
Total Deferred Inflows of Resources	<u>\$ 368,341</u>
Net Position:	
Invested in fixed assets	3,057,433
Unrestricted	1,453,862
Total Net Position	<u>\$ 4,511,295</u>

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

Madison County Public Library
Statement of Activities
For The Year Ended June 30, 2018

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
				Primary Government
Governmental activities				
Cultural and recreations	\$ (3,229,711)	77,990	37,955	\$ (3,113,766)
General Revenues:				
			Taxing district revenues	\$ 3,247,543
			Investment income	14,237
			Other income	32,073
			Total general revenues	3,293,853
			Change in net position	180,087
			Net position - beginning	4,331,208
			Net position - ending	\$ 4,511,295

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

Madison County Public Library
Balance Sheet
Governmental Fund
June 30, 2018

	Governmental Fund
Assets	
Cash and cash equivalents	\$ 5,343,767
Investments	1,800,836
Accounts receivable	36,057
Prepaid expenses	73,006
Total Assets	\$ 7,253,666
Liabilities	
Accounts payable	\$ 9,380
Compensated absences	5,500
Total Liabilities	\$ 14,880
Fund Balances	
Nonspendable	\$ 73,006
Committed - contingency fund	1,784,263
Committed - capital development fund	400,000
Assigned - depreciation fund	400,000
Assigned - construction fund	3,407,535
Unassigned	1,173,982
Total Fund Balances	\$ 7,238,786
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	\$ 7,319,898
Deferred outflows, inflows, net pension liability, and net OPEB liability related to the implementation of GASB 68 and 75 which are not receivable or payable in the current period and therefore, not reported in the fund	(2,281,065)
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	(7,766,324)
Net position of governmental activities	\$ 4,511,295

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, 2018

	Governmental Fund
Revenues	
Taxing district revenues	\$ 3,247,543
Grant revenues	35,930
Investment income	14,237
Public support	2,025
Other revenues	110,063
Total Revenues	3,409,798
Expenditures	
Personnel expenses	1,700,462
Library materials	351,330
Telephone and utilities	59,986
Insurance	47,391
Public relations	30,063
Programming	34,825
Office supplies	16,536
Postage	7,989
Legal and accounting	29,802
Summer reading	21,829
Van and bookmobile operations	19,016
Staff education and dues	26,176
Computer expenses	26,071
Telecommunication	48,175
Other expenses	30,723
Grounds maintenance	18,283
Building maintenance	84,284
Equipment repairs and rental	31,550
Maintenance supplies	28,439
Bond issuance costs	34,816
Total Current Expenditures	2,647,746
Operating capital outlays	1,464,771
Debt Service	
Principal	360,000
Interest	155,557
Total Expenditures	4,628,074
Excess of Expenditures over Revenues	(1,218,276)
Other Financing Sources	
Proceeds from Long-Term Debt Issued	4,810,000
Total Other Financing Sources	4,810,000
Net change in fund balance	3,591,724
Fund balance - beginning	3,647,062
Fund balance - ending	\$ 7,238,786

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, 2018

Reconciliation to the Statement of Activities:

Net Change in Fund Balance - Governmental Fund	\$	3,591,724
<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		1,464,771
Depreciation Expense		(236,885)
<p>Governmental Funds report pension and OPEB related expenses of \$248,951. However, the Statement of Net Position reports pension and OPEB related expenses pursuant to GASB 68 and 75 of \$420,050</p>		
		(171,099)
<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>		
		360,000
<p>Government Funds report expense as paid by the Organization; however, in the Statement of Activities, expenses are reported as due based on a 60-day accrual. Accordingly, the Statement of Activities recorded more expenses than the fund accounting due to accrued compensated absences and accrued interest expense.</p>		
		(18,424)
<p>Proceeds of bond principal is an other financing source in the governmental funds, but the receipt increases long-term liabilities in the Statement of Net Position</p>		
		(4,810,000)
Change in Net Position of Governmental Activities	\$	180,087

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

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018

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, 2018 was \$236,885.

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, 2018 fund balances are comprised of the following:

	<u>General Fund</u>
Nonspendable	\$ 73,006
Committed - Contingency fund	\$ 1,784,263
Committed - Capital development fund	\$ 400,000
Assigned - Depreciation fund	\$ 400,000
Assigned - Construction fund	\$ 3,407,535
Unassigned	\$ 1,173,982

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, 2018

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 PRINCIPLE

The Library adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for the year ended June 30, 2018. This guidance changes how governments calculate and report the costs and obligations associated with other post-employment employee benefits (OPEB). It is designed to improve the information provided by state and local government employers about financial support for OPEB that is provided by other entities.

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, 2018 was as follows:

Category 1	\$	250,956	
Category 2	\$	5,147,467	
Category 3	\$	-	

NOTE 4 – INVESTMENTS

Investments are presented in the financial statements as of June 30, 2018 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, 2018 are as follows:

<u>Type of Security</u>	<u>Cost</u>	<u>June 30, 2018 Market Value</u>	<u>Unrealized (Depreciation)</u>
Bonds & Notes	\$ 1,832,226	\$ 1,800,836	\$ (31,390)
	<u>\$ 1,832,226</u>	<u>\$ 1,800,836</u>	<u>\$ (31,390)</u>

During the year ended June 30, 2018 the Organization recognized unrealized losses totaling \$32,989.

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, 2018

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, 2018 are as follows:

<u>Description</u>	<u>June 30, 2018</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	\$ 1,800,836	\$ -	\$ 1,800,836	\$ -

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, 2018 was as follows:

<u>Governmental Activities</u>	<u>July 1, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2018</u>
Land	\$ 485,682	\$ -	\$ -	\$ 485,682
Buildings	7,309,671	-	-	7,309,671
Furniture and equipment	1,144,356	13,631	-	1,157,987
Construction in progress	192,164	1,451,140	-	1,643,304
Total at historical cost	<u>9,131,873</u>	<u>1,464,771</u>	<u>-</u>	<u>10,596,644</u>
Less: Accumulated Depreciation				
Buildings	2,099,531	182,755	-	2,282,286
Furniture and equipment	940,330	54,130	-	994,460
Total accumulated depreciation	<u>3,039,861</u>	<u>236,885</u>	<u>-</u>	<u>3,276,746</u>
Capital assets – net	<u>\$ 6,092,012</u>	<u>\$ 1,227,886</u>	<u>\$ -</u>	<u>\$ 7,319,898</u>

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 6 – ADVANCED REFUNDINGS AND DEFEASANCES

Series 2013

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

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

The maturities of bonds payable of \$1,150,000 are summarized as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 2019	\$ 220,000	\$ 23,000	\$ 243,000
June 2020	225,000	18,600	243,600
June 2021	230,000	14,100	244,100
June 2022	235,000	9,500	244,500
June 2023	240,000	4,800	244,800
Total	<u>\$ 1,150,000</u>	<u>\$ 70,000</u>	<u>\$ 1,220,000</u>

Series 2016

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

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

The maturities of bonds payable of \$1,740,000 are summarized as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 2019	\$ 120,000	\$ 37,225	\$ 157,225
June 2020	125,000	34,775	159,775
June 2021	120,000	32,325	152,325
June 2022	125,000	29,875	154,875
June 2023	125,000	27,375	152,375
June 2024 - 2028	680,000	95,625	775,625
June 2029 - 2031	445,000	16,938	461,938
Total	<u>\$ 1,740,000</u>	<u>\$ 274,138</u>	<u>\$ 2,014,138</u>

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 – NOTES PAYABLE SERIES 2017

The Library issued \$4,810,000 of General Obligation Bonds, Series 2017, dated August 29, 2017, with an average interest rate of 2.846% to for the expansion of the Richmond branch of the Library. The bonds are for 20 years and have a maturity date of June 1, 2037.

The maturities of bonds payable of \$4,780,000 are summarized as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 2019	\$ 30,000	\$ 134,388	\$ 164,388
June 2020	30,000	133,788	163,788
June 2021	35,000	133,188	168,188
June 2022	30,000	132,488	162,488
June 2023	35,000	131,888	166,888
June 2024 - 2028	1,140,000	607,990	1,747,990
June 2029 - 2033	1,610,000	452,276	2,062,276
June 2034 - 2037	1,870,000	152,112	2,022,112
Total	<u>\$ 4,780,000</u>	<u>\$ 1,878,118</u>	<u>\$ 6,658,118</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, 2018 the liability for these absences was \$78,040 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 obligations follows:

	<u>Compensated Absences</u>	<u>Bond Payable</u>	<u>Net Pension Liability</u>	<u>Net OPEB Liability</u>	<u>Total</u>
Payable at June 30, 2017	\$ 80,138	\$ 3,220,000	\$ 2,011,075	\$ 572,363	\$ 5,803,438
Increase in liability	-	4,810,000	112,581	157,347	5,079,928
Decrease in liability	<u>(2,098)</u>	<u>(360,000)</u>	<u>-</u>	<u>-</u>	<u>(362,098)</u>
Payable at June 30, 2018	<u>\$ 78,040</u>	<u>\$ 7,670,000</u>	<u>\$ 2,123,656</u>	<u>\$ 729,710</u>	<u>\$ 10,521,268</u>

NOTE 10 – PROPERTY TAX CALENDAR

Property taxes for fiscal year 2018 were levied on October 1, 2017 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.

MADISON COUNTY PUBLIC LIBRARY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

NOTE 11 – PUBLIC SUPPORT

Total public support (including Friends of the Madison County Public Library): \$ 2,025

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

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

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

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

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

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

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 12 – RETIREMENT PLAN (CONTINUED)

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

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

All current employees participating in County Employees Retirement Systems (CERS) are eligible for healthcare benefits provided by KRS in conjunction with their pension service benefits described. Retiree cost depends on length of service prior to retirement. Employer contribution rates are established annually by the KRS Board of Trustees. KRS issues separate stand-alone financial statements for the statewide multiple employer cost-sharing plan that provides other post-employment benefits for local government employees participating in CERS.

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

At June 30, 2018, 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	\$ 2,123,656
Commonwealth's proportionate share of the CERS net pension liability associated with the Library	<u>5,851,183,787</u>
	<u>\$ 5,853,307,443</u>

The net pension liability for each plan was measured as of June 30, 2017, 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, 2017, the Library's proportion was 0.036298% percent.

For the year ended June 30, 2018, the Library recognized pension expense of \$336,897 related to CERS. At June 30, 2018, the Library reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between projected and actual experience	\$ 2,635	\$ 53,932
Changes of assumptions	392,054	-
Difference between projected and actual earnings on plan investments	168,269	141,990
Changes in proportion and differences between Company contributions and proportionate share of contributions	23,918	134,213
Library contributions subsequent to the measurement date	<u>147,205</u>	<u>-</u>
Total	<u>\$ 734,081</u>	<u>\$ 330,135</u>

MADISON COUNTY PUBLIC LIBRARY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

NOTE 12 – RETIREMENT PLAN (CONTINUED)

The \$147,205 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows on the next page.

Year ending June 30,	
2019	\$ 128,372
2020	111,220
2021	44,431
2022	(27,282)

Actuarial assumptions—The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

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

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

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 12 – RETIREMENT PLAN (CONTINUED)

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 Expected Real Rate of Return
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash Equivalent	<u>2.00%</u>	<u>1.88%</u>
Total	100.00%	6.56%

Discount rate—For CERS, the discount rate used to measure the total pension liability was 6.25%. 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 6.25%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

	Discount rate	Library’s proportionate share of net pension
1% decrease	5.25%	\$ 2,679,622
Current discount rate	6.25%	\$ 2,123,656
1% increase	7.25%	\$ 1,660,390

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

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

Other Post-Employment Benefits (OPEB) Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the Library reported a liability for its proportionate share of the OPEB liability for CERS. The amount recognized by the Library as its proportionate share of the net OPEB liability, the related Commonwealth support, and the total portion of the net OPEB liability that was associated with the Library were as follows:

Library's proportionate share of the CERS net OPEB liability	\$ 729,710
Commonwealth’s proportionate share of the CERS net OPEB liability associated with the Library	<u>2,009,612,344</u>
	<u>\$ 2,010,342,054</u>

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 12 – RETIREMENT PLAN (CONTINUED)

The net OPEB liability for each plan was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

The Library’s proportion of the net OPEB 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, 2017, the Library’s proportion was 0.036928% percent.

For the year ended June 30, 2018, the Library recognized OPEB expense of \$83,153 related to CERS. At June 30, 2018, the Library reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual experience	\$ -	\$ 2,027
Changes of assumptions	158,780	-
Difference between projected and actual earnings on Plan investments	-	34,486
Changes in proportion and differences between Company contributions and proportionate share of contributions	-	1,693
Library contributions subsequent to the measurement date	47,781	-
Total	\$ 206,561	\$ 38,206

The \$47,781 reported as deferred outflows of resources related to OPEBs resulting from Library contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows related to OPEBs will be recognized as a decrease in OPEB expense as follows:

Year ending June 30,	
2019	\$ 20,746
2020	20,746
2021	20,746
2022	20,746
2023	29,368
2024 and thereafter	8,222

Actuarial assumptions—The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Healthcare Cost Trend Rate	7.50%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

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

MADISON COUNTY PUBLIC LIBRARY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

NOTE 12 – RETIREMENT PLAN (CONTINUED)

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding OPEB 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 Expected Real Rate of Return
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash Equivalent	<u>2.00%</u>	<u>1.88%</u>
Total	100.00%	6.56%

Discount rate—For CERS, the discount rate used to measure the total OPEB liability was 5.845%. 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 6.25%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Library’s proportionate share of net OPEB liability to changes in the discount rate—The following table presents the net OPEB liability of the Library, calculated using the discount rates selected by each OPEB system, as well as what the Library’s net OPEB 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.

	<u>Discount rate</u>	<u>Library’s proportionate share of net OPEB liability</u>
1% decrease	4.84%	\$ 928,521
Current discount rate	5.84%	\$ 729,710
1% increase	6.84%	\$ 564,276

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 12 – RETIREMENT PLAN (CONTINUED)

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

	Library’s proportionate share of net OPEB liability
1% decrease	\$ 559,728
Current healthcare cost trend rate	\$ 729,710
1% increase	\$ 950,686

*OPEB plan fiduciary net position—*Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued financial reports of CERS. The reports are available on the Kentucky Retirement Systems website.

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, 2017, the Library was required to adopt Governmental Accounting Standards Board (GASB) Statement no. 75, “Accounting and Financial Reporting for Postemployment Benefits Other than Pensions” (GASB 75). GASB 75 replaced the requirements of GASB 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions” and GASB 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans”, as they relate to governments that provide OPEBs through retirement plans administered as trusts or similar arrangements that meet certain criteria. GASB 75 requires governments providing defined benefit OPEB to recognize their long-term obligation for OPEB benefits as a liability to more comprehensively and comparably measure the annual costs of OPEB. Cost-sharing governmental employers, such as the Library, are required to report a net OPEB liability, OPEB expense and OPEB-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

GASB 75 required retrospective application. Since the Library only presents one year of financial information, the beginning net position was adjusted to reflect the retrospective application. The adjustment resulted in a \$572,363 reduction in beginning net position on the Statement of Activities.

Ending Net Position per 2017 Audit Statement of Activities	\$ 4,903,571
Adjustment due to implementation of GASB 75	<u>(572,363)</u>
Restated beginning Net Position on Statement of Activities	<u>\$ 4,331,208</u>

NOTE 15 – SUBSEQUENT EVENTS

Management of the Organization has considered subsequent events through August 31, 2018, 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, 2018, 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 August 31, 2018.

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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies (2018-1).

Compliance and Other Matters

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



Madison County Public Library's Response to Findings

Madison County Public Library's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Madison County Public Library's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Craft, Noble & Company, PLLC

Craft, Noble & Company, PLLC
Richmond, Kentucky
August 31, 2018

MADISON COUNTY PUBLIC LIBRARY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018

FINDINGS- FINANCIAL STATEMENT AUDIT

2018-1

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:

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

Organization Response and Corrective Action Plan:

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

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

Madison County Public Library
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For The Year Ended June 30, 2018

Revenues	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance
Taxing district revenues	\$ 3,269,425	\$ 3,269,425	\$ 3,247,543	\$ (21,882)
Grant revenues	47,000	47,000	35,930	(11,070)
Investment income	10,000	10,000	14,237	4,237
Public support	20,000	20,000	2,025	(17,975)
Other revenues	122,000	122,000	110,063	(11,937)
Total Revenues	<u>3,468,425</u>	<u>3,468,425</u>	<u>3,409,798</u>	<u>(58,627)</u>
Expenditures				
Personnel expenses	1,841,825	1,841,825	1,700,462	141,363
Library materials	455,000	455,000	351,330	103,670
Telephone and utilities	73,500	73,500	59,986	13,514
Insurance	43,000	43,000	47,391	(4,391)
Public relations	32,000	32,000	30,063	1,937
Programming	38,000	38,000	34,825	3,175
Office supplies	18,000	18,000	16,536	1,464
Postage	7,200	7,200	7,989	(789)
Legal and accounting	27,000	27,000	29,802	(2,802)
Summer reading	23,000	23,000	21,829	1,171
Van and bookmobile operations	19,200	19,200	19,016	184
Staff education and dues	20,000	20,000	26,176	(6,176)
Computer expenses	72,500	72,500	26,071	46,429
Telecommunication	42,000	42,000	48,175	(6,175)
Other expenses	12,000	12,000	30,723	(18,723)
Grounds maintenance	17,000	17,000	18,283	(1,283)
Building maintenance	65,000	65,000	84,284	(19,284)
Equipment repairs and rental	28,000	28,000	31,550	(3,550)
Maintenance supplies	18,000	18,000	28,439	(10,439)
Bond issuance costs	-	-	34,816	(34,816)
Total Current Expenditures	<u>2,852,225</u>	<u>2,852,225</u>	<u>2,647,746</u>	<u>204,479</u>
Operating capital outlays	2,810,000	1,328,143	1,464,771	(136,628)
Debt Service				
Debt service on bonds	556,200	556,200	515,557	40,643
Total Expenditures	<u>6,218,425</u>	<u>4,736,568</u>	<u>4,628,074</u>	<u>108,494</u>
Excess of expenditures over revenues	(2,750,000)	(1,268,143)	(1,218,276)	49,867
Other Financing Sources				
Proceeds from Long-Term Debt Issued	<u>2,750,000</u>	<u>1,268,143</u>	<u>4,810,000</u>	<u>3,541,857</u>
Total Other Financing Sources	2,750,000	1,268,143	4,810,000	3,541,857
Net change in fund balance	-	-	3,591,724	3,591,724
Fund balance - beginning	-	-	<u>3,647,062</u>	
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,238,786</u>	

See Independent Auditor's Report.

Madison County Public Library
Schedule of Proportionate Share of the Net Pension Liability
For the Years Ended June 30, 2018, 2017, 2016, 2015 and 2014

	2018	2017	2016	2015	2014
Library's proportion of the net pension liability	0.036298%	0.040845%	0.039924%	0.038141%	0.038141%
Library's proportionate share of the net pension liability	\$ 2,123,656	\$ 2,011,075	\$ 1,714,560	\$ 1,237,085	\$ 1,396,312
Library's covered employee payroll	\$ 1,016,609	\$ 994,023	\$ 980,354	\$ 925,475	\$ 872,393
Library's share of the net pension liability as a percentage of its covered employee payroll	208.90%	202.32%	174.89%	133.67%	160.06%
Plan fiduciary net position as a percentage of the total pension liability	53.32%	55.50%	59.97%	66.80%	61.22%

Notes:

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

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

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

See Independent Auditor's Report.

Madison County Public Library
Schedule of Pension Contributions
For the Years Ended June 30, 2018, 2017, 2016, 2015, 2014 and 2013

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required employer contribution	\$ 147,205	\$ 138,666	\$ 123,497	\$ 118,763	\$ 120,227	\$ 95,591
Contributions relative to contractually required employer contribution	<u>\$ 147,205</u>	<u>\$ 134,804</u>	<u>\$ 123,497</u>	<u>\$ 118,763</u>	<u>\$ 120,227</u>	<u>\$ 95,591</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ 3,862</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Company's covered employee payroll	 \$ 1,016,609	 \$ 994,023	 \$ 980,354	 \$ 925,475	 \$ 872,393	 \$ 774,415
Employer contributions as a percentage of covered-employee payroll	14.48%	13.95%	12.60%	12.83%	13.78%	12.34%

Notes:

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

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

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

See Independent Auditor's Report.

**MADISON COUNTY PUBLIC LIBRARY
SCHEDULE OF CHANGES IN BENEFITS AND ASSUMPTIONS- PENSION
FOR THE YEAR ENDED JUNE 30, 2018**

County Employee Retirement System

Changes of benefit terms – None

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

2017

- The assumed investment rate of return was decreased from 7.50% to 6.25%
- The assumed rate of inflation was reduced from 3.25% to 2.30%
- The assumed rate of wage inflation decreased by 0.95%
- The payroll growth assumption was reduced from 4.00% to 2.00%

2015

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

Method and assumptions used in calculations of actuarially determined contributions – The actuarially determined contributions rates are determined on an annual basis beginning with the fiscal years ended 2017, determined as of June 30, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2014 to a closed 28-year period. The following actuarial methods and assumptions were used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level of percentage of payroll
Remaining amortization period	28 years
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary increase	4.00%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

See Independent Auditor's Report.

Madison County Public Library
Schedule of Proportionate Share of the Net OPEB Liability
For the Years Ended June 30, 2018, and 2017

	2018	2017
Library's proportion of the net OPEB liability	0.036298%	0.040845%
Library's proportionate share of the net OPEB liability	\$ 729,710	\$ 572,363
Library's covered employee payroll	\$ 1,016,609	\$ 994,023
Library's share of the net OPEB liability as a percentage of its covered employee payroll	71.78%	57.58%
Plan fiduciary net position as a percentage of the total OPEB liability	52.39%	55.24%

Notes:

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

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

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

See Independent Auditor's Report.

Madison County Public Library
Schedule of OPEB Contributions
For the Years Ended June 30, 2018, and 2017

	2018	2017
Contractually required employer contribution	\$ 47,781	\$ 47,017
Contributions relative to contractually required employer contribution	\$ 47,781	\$ 45,516
Contribution deficiency (excess)	\$ -	\$ 1,501
 Company's covered employee payroll	 \$ 1,016,609	 \$ 994,023
Employer contributions as a percentage of covered-employee payroll	4.70%	4.73%

Notes:

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

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

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

See Independent Auditor's Report.

**MADISON COUNTY PUBLIC LIBRARY
SCHEDULE OF CHANGES IN BENEFITS AND ASSUMPTIONS- OPEB
FOR THE YEAR ENDED JUNE 30, 2018**

County Employee Retirement System

Changes of benefit terms – None

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

2017

- The assumed investment rate of return was decreased from 7.50% to 6.25%
- The assumed rate of inflation was reduced from 3.25% to 2.30%
- The assumed rate of wage inflation decreased by 0.95%
- The payroll growth assumption was reduced from 4.00% to 2.00%
- The single discount rate changed from 6.89% to 5.84%

Method and assumptions used in calculations of actuarially determined contributions – The actuarially determined contributions rates are determined on an annual basis beginning with the fiscal years ended 2017, determined as of June 30, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2014 to a closed 28-year period. The following actuarial methods and assumptions were used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level of percentage of payroll
Remaining amortization period	28 years
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary increase	4.00%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

See Independent Auditor's Report.