

MADISON COUNTY PUBLIC LIBRARY  
FINANCIAL STATEMENTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AND  
INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED JUNE 30, 2020



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## TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1 - 2
Management's Discussion and Analysis	3 - 6
Statement of Net Position	7
Statement of Activities	8
Balance Sheet - Governmental Fund	9
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund	10
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities	11
Notes to Financial Statements	12 - 24
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 <i>Government Auditing Standards</i>	25 - 26
Schedule of Findings and Responses	27
SUPPLEMENTARY INFORMATION	
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	28
Schedule of Proportionate Share of the Net Pension Liability	29
Schedule of Pension Contributions	30
Schedule of Changes in Benefits and Assumptions- Pension	31
Schedule of Proportionate Share of the Net OPEB Liability	32
Schedule of OPEB Contributions	33
Schedule of Changes in Benefits and Assumptions- OPEB	34

## 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, 2020, 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, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of proportionate share of the net pension liability, the schedule of pension contributions, 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 September 30, 2020 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, Waninger, Noble & Company, PLLC***

Craft, Waninger, Noble & Company, PLLC  
Richmond, Kentucky  
September 30, 2020

## **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, 2020. Please read this MD&A in conjunction with the Library's Financial Statements, which follow.*

### **Financial Highlights**

- I. The Library spent approximately 12% of its tax revenues on Library Materials.*
- II. The Library Board of Trustees voted to lower tax rates from the prior year: 5.8 cents per \$100 of valuation for real property and 7.56 cents per \$100 of valuation for personal property. The Library's income from property tax decreased 3.4% from the previous fiscal year.*

### **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, 2020 and 2019:

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>Variance</u>
Capital assets, net of depreciation	\$ 10,752,700	\$ 10,098,957	\$ 653,743
Other assets	4,001,625	4,727,699	(726,074)
Deferred outflows	1,169,545	1,316,005	(146,460)
Long-term liabilities	10,165,425	10,571,699	(406,274)
Current liabilities	420,571	423,668	(3,097)
Deferred inflows	632,460	435,859	196,601
Invested in fixed assets	3,832,700	2,798,957	1,033,743
Unrestricted net position, as restated	872,714	1,912,478	(1,039,764)

Revenue and Expense Comparison for the years ended:

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>Variance</u>
Taxing district revenues	\$ 3,287,792	\$ 3,403,603	\$ (115,811)
Grant revenues	155,037	139,337	15,700
Investment income	71,675	131,021	(59,346)
Public support	28,424	3,882	24,542
Other revenues	50,714	102,564	(51,850)
Total revenues	<u>3,593,642</u>	<u>3,780,407</u>	<u>(186,765)</u>
Personnel expenses	2,195,315	2,190,939	4,376
Library materials	396,575	371,838	24,737
Telephone and utilities	81,243	67,598	13,645
Insurance	57,800	54,388	3,412
Public relations	24,427	21,815	2,612
Programming	33,193	41,050	(7,857)
Office supplies	21,863	18,274	3,589
Postage	5,604	5,290	314
Legal and accounting	36,369	34,521	1,848
Summer reading	6,714	27,572	(20,858)
Van and bookmobile operations	13,739	14,420	(681)
Staff education and dues	31,115	17,720	13,395
Computer expenses	72,289	28,444	43,845
Telecommunication	19,758	32,092	(12,334)
Other expenses	46,568	85,518	(38,950)
Grounds maintenance	19,438	19,194	244
Building maintenance	91,636	81,802	9,834
Equipment repairs and rental	21,025	27,475	
Maintenance supplies	16,255	27,281	(11,026)
Interest	186,241	192,540	(6,299)
Depreciation	222,496	220,687	1,809
Total expenditures	<u>3,599,663</u>	<u>3,580,458</u>	<u>25,655</u>
Change in net position	<u>\$ (6,021)</u>	<u>\$ 199,949</u>	<u>\$ (212,420)</u>

The Library's main source of revenue is property tax, which is approximately 91% 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 67%. Personnel expenditures before the recognition of the pension and OPEB related expenses decreased about 20% from the previous year, which we see as being tied to impacts of the COVID 19 pandemic that resulted in the library being closed to the public from mid-March through the first of June. While most staff continued to report in to work, a number used Coronavirus Aid, Relief, and Economic Security Act (CARES) leave, unemployment leave, and extended leaves of absence due to the pandemic.

## **Capital Asset Activity**

The overwhelming majority of capital asset activity in FY20 was the continuation of the major construction/renovation project at the Richmond location. Construction began in Fall 2017, and substantial completion in August 2019 allowed the new addition to be opened for staff and public use that month. Issues with subcontractors caused work to continue through Spring 2020 on the HVAC system. The sewer hookup also had to be rerouted to connect with the city main line on North Street. Minor issues continued to be addressed by the architect and general contractor throughout most of the fiscal year, and those efforts were made more difficult by the onset of the COVID 19 pandemic in March 2020.

The expansion doubles the size of the existing building with a 3-story addition. The addition comprises 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 expanded customer-use areas, including a maker space/digital services lab, genealogy/Kentucky history room, quiet study spaces, and a sunroom reading area. Staff areas were also relocated and redesigned.

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

Capital projects at the Berea location included a repainting of much of the interior of the building and repair and replacement of some furnishings.

## **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).

This year's budget to actual shows fairly normal variances spread over different budget categories, the two largest pieces of which are in personnel expenses which were under budget and capital expenses which were over budget. We attribute the variances to unforeseen events, namely the COVID 19 pandemic and the continuation of the Richmond expansion project which was significantly over schedule (although ultimately came in right on budget). The large deficit in the following summary was offset by transfers of \$950,000 into the operating account from the construction bond account and the restricted reserve account. As transfers, they do not appear in this summary as new income. A summarized comparison of budget highlights follows on the next page.

A summarized comparison of budget highlights is listed below:

Budget Comparison for 2020 – 2019			
	<u>Budgeted</u>	<u>Actual Amount</u>	<u>Difference</u>
Net Revenue	\$ 3,677,649	\$ 3,593,642	\$ (84,007)
Personnel expenses	1,997,836	1,873,527	124,309
Library Materials	430,000	396,575	33,425
Telephone and utilities	89,750	81,243	8,507
Insurance	55,000	57,800	(2,800)
Public relations	32,000	24,427	7,573
Programming	46,000	33,193	12,807
Office supplies	15,000	21,863	(6,863)
Postage	8,000	5,604	2,396
Legal and accounting	38,500	36,369	2,131
Summer reading	24,000	6,714	17,286
Van and bookmobile operations	13,000	13,739	(739)
Staff education and dues	23,000	31,115	(8,115)
Computer expenses	100,000	72,289	27,711
Telecommunication	20,000	19,758	242
Other expenses	18,000	46,568	(28,568)
Grounds maintenance	18,000	19,438	(1,438)
Building Maintenance	65,000	91,636	(26,636)
Equipment repairs and rental	33,000	21,025	11,975
Maintenance supplies	25,000	16,255	8,745
Capital outlays	60,000	876,238	(816,238)
Debt service on bond issue	<u>566,563</u>	<u>574,213</u>	<u>(7,650)</u>
Total Budgeted	<u>\$ -</u>	<u>\$ (725,947)</u>	<u>\$ (725,947)</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 2020 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.

We foresee additional budget impacts in FY21 and beyond as a result of the COVID 19 pandemic. Tax revenue may be reduced or delayed, programming and materials expenditures will change based on the changing service model during the continuation of the pandemic, and staffing may change as well.

### 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, Jackie Couture.



Madison County Public Library  
Statement of Net Position  
June 30, 2020

Assets	
Cash and cash equivalents	\$ 2,551,579
Investments	1,390,133
Accounts receivable	-
Prepaid expenses	59,913
Fixed Assets:	
Depreciable buildings, property and equipment, net of depreciation	10,267,018
Land	485,682
Total Fixed Assets	<u>10,752,700</u>
Total Assets	14,754,325
Deferred Outflows of Resources:	
Subsequent pension & OPEB contributions	254,980
Deferred outflows related to pensions	604,189
Deferred outflows related to OPEB	310,376
Total Deferred Outflows of Resources	<u>1,169,545</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 15,923,870</u>
Liabilities:	
Accounts payable	\$ 16,331
Interest payable	13,740
Current portion of bonds payable	385,000
Current portion of compensated absences	5,500
Long-Term Obligations:	
Compensated absences	80,152
Bonds payable	6,535,000
Net pension liability	2,865,244
Net OPEB liability	685,029
Total Liabilities	10,585,996
Deferred Inflows of Resources:	
Deferred inflows related to pensions	314,953
Deferred inflows related to OPEB	317,507
Total Deferred Inflows of Resources	632,460
Net Position:	
Invested in fixed assets	3,832,700
Unrestricted	872,714
Total Net Position	<u>4,705,414</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 15,923,870</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, 2020

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	\$ (3,599,663)	25,048	183,461	\$ (3,391,154)
			General Revenues:	
			Taxing district revenues	\$ 3,287,792
			Investment income	71,675
			Other income	25,666
			Total general revenues	3,385,133
			Change in net position	(6,021)
			Net position - beginning	4,711,435
			Net position - ending	\$ 4,705,414

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

Madison County Public Library  
Balance Sheet  
Governmental Fund  
June 30, 2020

	Governmental Fund
<b>Assets</b>	
Cash and cash equivalents	\$ 2,551,579
Investments	1,390,133
Accounts receivable	-
Prepaid expenses	59,913
Total Assets	\$ 4,001,625
<b>Liabilities</b>	
Accounts payable	\$ 16,331
Compensated absences	5,500
Total Liabilities	\$ 21,831
<b>Fund Balances</b>	
Nonspendable	\$ 59,913
Committed - contingency fund	1,390,133
Committed - capital development fund	400,000
Assigned - depreciation fund	400,000
Assigned - construction fund	61,624
Unassigned	1,668,124
Total Fund Balances	\$ 3,979,794
 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	\$ 10,752,700
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	(3,013,188)
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	(7,013,892)
Net position of governmental activities	\$ 4,705,414

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, 2020

	Governmental Fund
Revenues	
Taxing district revenues	\$ 3,287,792
Grant revenues	155,037
Investment income	71,675
Public support	28,424
Other revenues	50,714
Total Revenues	3,593,642
Expenditures	
Personnel expenses	1,873,527
Library materials	396,575
Telephone and utilities	81,243
Insurance	57,800
Public relations	24,427
Programming	33,193
Office supplies	21,863
Postage	5,604
Legal and accounting	36,369
Summer reading	6,714
Van and bookmobile operations	13,739
Staff education and dues	31,115
Computer expenses	72,289
Telecommunication	19,758
Other expenses	46,568
Grounds maintenance	19,438
Building maintenance	91,636
Equipment repairs and rental	21,025
Maintenance supplies	16,255
Total Current Expenditures	2,869,138
Operating capital outlays	876,238
Debt Service	
Principal	380,000
Interest	194,213
Total Expenditures	4,319,589
Net change in fund balance	(725,947)
Fund balance - beginning	4,705,741
Fund balance - ending	\$ 3,979,794

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, 2020

Reconciliation to the Statement of Activities:

Net Change in Fund Balance - Governmental Fund	\$	(725,947)
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Government Funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets are allocated over their useful lives and reported as depreciation expenses.

Capital Outlay		876,238
Depreciation Expense		(222,496)

Governmental Funds report pension and OPEB related expenses of \$263,688. However, the Statement of Net Position reports pension and OPEB related expenses pursuant to GASB 68 and 75 of \$583,536.

		(319,848)
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Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position

		380,000
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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.

		<u>6,032</u>
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Change in Net Position of Governmental Activities	\$	<u><u>(6,021)</u></u>
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Madison County Public Library  
Notes to Financial Statements  
June 30, 2020

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, 2020

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, 2020 was \$222,496.

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, 2020 fund balances are comprised of the following:

Nonspendable	\$	59,913
Committed - Contingency fund	\$	1,390,133
Committed - Capital development fund	\$	400,000
Assigned - Depreciation fund	\$	400,000
Assigned - Construction fund	\$	61,624
Unassigned	\$	1,668,124

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, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement Plan

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

NOTE 2 – CONCENTRATION OF CREDIT RISK

The Library maintains cash and cash equivalents in local banks which may, at times, exceed the FDIC limits. The Library’s cash and cash equivalents are categorized as either (1) insured or collateralized with securities held by the entity or by its agent in the entity’s name, (2) collateralized with securities held by the pledging financial institution’s trust department or agent in the entity’s name or (3) uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity’s name). The Library’s categorization as of June 30, 2020 was as follows:

Category 1	\$	250,309
Category 2	\$	2,286,546
Category 3	\$	-

NOTE 3 – INVESTMENTS

Investments are presented in the financial statements as of June 30, 2020 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, 2020 are as follows:

<u>Type of Security</u>	<u>Cost</u>	<u>June 30, 2020</u> <u>Market Value</u>	<u>Unrealized</u> <u>(Depreciation)</u>
Bonds & Notes	\$ 1,345,984	\$ 1,390,133	\$ 44,149
	<u>\$ 1,345,984</u>	<u>\$ 1,390,133</u>	<u>\$ 44,149</u>

During the year ended June 30, 2020 the Organization recognized unrealized gains totaling \$68,445.

**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, 2020

NOTE 3 – INVESTMENTS (CONTINUED)

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

- Level 1 – Asset and liability fair values are based on quoted prices in active markets for identical assets and liabilities.
- Level 2 – Asset and liability fair values are based on observable inputs that include quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets and liabilities. Level 2 assets and liabilities include certificates of deposit.
- Level 3 – Assets and liabilities are financial instruments whose value is calculated by the use of pricing models and/or discounted cash flow methodologies, as well as financial instruments for which the determination of fair value requires significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

Fair value of assets and liabilities measured on a recurring basis at June 30, 2020 are as follows:

<u>Description</u>	<u>June 30, 2020</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	\$ 1,390,133	\$ -	\$ 1,390,133	\$ -

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

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2020 was as follows:

<u>Governmental Activities</u>	<u>June 30, 2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2020</u>
Land	\$ 485,682	\$ -	\$ -	\$ 485,682
Buildings	7,309,671	-	-	7,309,671
Furniture and equipment	1,189,253	103,487	-	1,292,740
Construction in progress	4,611,785	772,751	-	5,384,536
Total at historical cost	<u>13,596,391</u>	<u>876,238</u>	<u>-</u>	<u>14,472,629</u>
Less: Accumulated Depreciation				
Buildings	2,465,041	182,755	-	2,647,796
Furniture and equipment	1,032,392	39,741	-	1,072,133
Total accumulated depreciation	<u>3,497,433</u>	<u>222,496</u>	<u>-</u>	<u>3,719,929</u>
Capital assets – net	<u>\$ 10,098,958</u>	<u>\$ 653,742</u>	<u>\$ -</u>	<u>\$ 10,752,700</u>

Madison County Public Library  
Notes to Financial Statements  
June 30, 2020

NOTE 5 – COMPENSATED ABSENCES

It is the Library’s policy to compensate all employees for certain absences not used at the end of their employment. As of June 30, 2020 the liability for these absences was \$85,652 and has been included in the personnel expenses. Such liability is recorded in the government-wide financial statements.

NOTE 6 – 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, 2019	\$ 83,712	\$ 7,300,000	\$ 2,764,755	\$ 808,731	\$ 10,957,198
Increase in liability	1,940	-	100,489	-	102,429
Decrease in liability	-	(380,000)	-	(123,702)	(503,702)
Payable at June 30, 2020	<u>\$ 85,652</u>	<u>\$ 6,920,000</u>	<u>\$ 2,865,244</u>	<u>\$ 685,029</u>	<u>\$ 10,555,925</u>

NOTE 7 – 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 \$705,000 are summarized as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 2021	\$ 230,000	\$ 11,800	\$ 241,800
June 2022	235,000	7,150	242,150
June 2023	240,000	2,400	242,400
Total	<u>\$ 705,000</u>	<u>\$ 21,350</u>	<u>\$ 726,350</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.

Madison County Public Library  
Notes to Financial Statements  
June 30, 2020

NOTE 7 – ADVANCED REFUNDINGS AND DEFEASANCES (CONTINUED)

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 \$1,495,000 are summarized as follows:

	Principal	Interest	Total
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	135,000	24,775	159,775
June 2025	130,000	22,125	152,125
June 2026 - 2030	705,000	63,724	768,724
June 2031 - 2034	155,000	1,938	156,938
Total	<u>\$ 1,495,000</u>	<u>\$ 202,137</u>	<u>\$ 1,697,137</u>

NOTE 8 – 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 \$4,720,000 are summarized as follows:

	Principal	Interest	Total
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	215,000	131,188	346,188
June 2025	225,000	126,888	351,888
June 2026 - 2030	1,200,000	553,563	1,753,563
June 2031 - 2035	2,015,000	353,448	2,368,448
June 2036 - 2037	965,000	47,287	1,012,287
Total	<u>\$ 4,720,000</u>	<u>\$ 1,609,938</u>	<u>\$ 6,329,938</u>

NOTE 9 – PROPERTY TAX CALENDAR

Property taxes for fiscal year 2020 were levied on October 1, 2019 on the assessed property located in Madison County as of the preceding January 1. The assessments are determined by the County Property Valuation Administrator in accordance with Kentucky Revised Statutes. The due date collection periods for all taxes exclusive of vehicle taxes are as follows:

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

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

Madison County Public Library  
Notes to Financial Statements  
June 30, 2020

**NOTE 10 – PUBLIC SUPPORT**

Total public support (including Friends of the Madison County Public Library):                   \$   28,424

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 11 – 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 at least 4 years of service and 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, 2020

NOTE 11 – 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, 2020, 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	\$	2,865,244
Commonwealth's proportionate share of the CERS net pension liability associated with the Library		7,030,179,308
	\$	7,033,044,552

The net pension liability for each plan was measured as of June 30, 2019, 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, 2019, the Library's proportion was 0.040738% percent.

For the year ended June 30, 2020, the Library recognized pension expense of \$501,903 related to CERS. At June 30, 2020, the Library reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between projected and actual experience	\$ 73,156	\$ 12,106
Changes of assumptions	289,986	-
Difference between projected and actual earnings on plan investments	55,000	101,187
Changes in proportion and differences between Company contributions and proportionate share of contributions	186,047	201,660
Library contributions subsequent to the measurement date	190,416	-
Total	\$ 794,605	\$ 314,953

Madison County Public Library  
Notes to Financial Statements  
June 30, 2020

NOTE 11 – RETIREMENT PLAN (CONTINUED)

The \$190,416 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, 2021. 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,**

2021	\$ 228,225
2022	57,865
2023	(130)
2024	3,276

*Actuarial assumptions*—The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	3.30%, 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 Pub-210 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, project with the ultimate rates from the MP-2014 mortality improvements scale using a base year of 2010. The mortality table used for health retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was Pub-2010 Disabled Mortality table, with a 4-year-set-forward for both male and female rates, project with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

For CERS, the long-term expected rate of return was determined by using a building block method in which best estimate ranges of expected future real rates of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The current long-term inflation assumption is 2.30% per annum for both the non-hazardous and hazardous systems.

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	18.75%	4.30%
International Equity	18.75%	4.80%
Core Bonds	13.50%	1.35%
Cash Equivalent	1.00%	0.20%
High Yield	15.00%	2.60%
Opportunistic	3.00%	2.97%
Real Estate	5.00%	4.85%
Real Return	15.00%	4.10%
Private Equity	<u>10.00%</u>	<u>6.65%</u>
Total	<b>100.00%</b>	<b>3.89%</b>

Madison County Public Library  
Notes to Financial Statements  
June 30, 2020

**NOTE 11 – RETIREMENT PLAN (CONTINUED)**

*Discount rate*—For CERS, the discount rate used to measure the total pension liability was 6.25%. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the pension plan’s fiduciary net position and future contributions were projected to be sufficient to finance all the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability for each system. The projection of cash flows used to determine the single discount rate assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute as last amended by House Bill 362 (passed in 2018).

*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.

	<u>Discount rate</u>	<u>Library’s proportionate share of net pension</u>
1% decrease	5.25%	\$ 3,583,455
Current discount rate	6.25%	\$ 2,865,244
1% increase	7.25%	\$ 2,266,398

*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, 2020, 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	\$	685,029
Commonwealth’s proportionate share of the CERS net OPEB liability associated with the Library		1,681,269,921
		<u>1,681,954,950</u>
	\$	<u>1,681,954,950</u>

The net OPEB liability for each plan was measured as of June 30, 2019, 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, 2019, the Library’s proportion was 0.040738% percent.

Madison County Public Library  
Notes to Financial Statements  
June 30, 2020

**NOTE 12 – RETIREMENT PLAN (CONTINUED)**

For the year ended June 30, 2020, the Library recognized OPEB expense of \$81,633 related to CERS. At June 30, 2020, the Library reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between projected and actual experience	\$ -	\$ 206,690
Changes of assumptions	202,707	1,355
Difference between projected and actual earnings on Plan investments	4,512	34,938
Changes in proportion and differences between Company contributions and proportionate share of contributions	103,157	74,524
Library contributions subsequent to the measurement date	64,564	-
<b>Total</b>	<b>\$ 374,940</b>	<b>\$ 317,507</b>

The \$64,564 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, 2021. 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:

<b>Year ending June 30,</b>	
2021	\$ 4,630
2022	4,630
2023	14,304
2024	(4,253)
2025	(20,304)
2026 and thereafter	(6,138)

*Actuarial assumptions*—The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Healthcare Cost Trend Rate	7.25%
Salary increases	3.30%, 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 Pub-210 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, project with the ultimate rates from the MP-2014 mortality improvements scale using a base year of 2010. The mortality table used for health retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was Pub-2010 Disabled Mortality table, with a 4-year-set-forward for both male and female rates, project with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

For CERS, the long-term expected rate of return was determined by using a building block method in which best estimates ranges of expected future real rates of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The current long-term inflation assumption is 2.30% per annum for both the non-hazardous and hazardous systems.



Madison County Public Library  
Notes to Financial Statements  
June 30, 2020

**NOTE 11 – 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	18.75%	4.30%
International Equity	18.75%	4.80%
Core Bonds	13.50%	1.35%
Cash Equivalent	1.00%	0.20%
High Yield	15.00%	2.60%
Opportunistic	3.00%	2.97%
Real Estate	5.00%	4.85%
Real Return	15.00%	4.10%
Private Equity	<u>10.00%</u>	<u>6.65%</u>
Total	<b>100.00%</b>	<b>3.89%</b>

*Discount rate*—For CERS, the discount rate used to measure the total OPEB liability was 5.68%. The single discount rates are based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.13%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 28, 2019. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan’s fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the System’s actuarially determined contributions, and it is our understanding that any cost associated with the implicit subsidy will not be paid out of the System’s trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The projection of cash flows used to determine the single discount rate assumes that the funds receive the required employer contributions for future year, as determined by the current funding policy established in Statute as last amended by House Bill 362 (passed in 2018).

*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.

	<b>Discount rate</b>	<b>Library’s proportionate share of net OPEB liability</b>
1% decrease	4.84%	\$ 917,654
Current discount rate	5.84%	\$ 685,029
1% increase	6.84%	\$ 493,357

*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.

	<b>Library’s proportionate share of net OPEB liability</b>
1% decrease	\$ 509,458
Current healthcare cost trend rate	\$ 685,029
1% increase	\$ 897,925

Madison County Public Library  
Notes to Financial Statements  
June 30, 2020

NOTE 11 – RETIREMENT PLAN (CONTINUED)

*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 12 – 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 13- CORONAVIRUS (COVID-19) IMPACT

Prior to the year ending June 30, 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a pandemic. COVID-19 continues to spread across the globe and is impacting worldwide economic activity and financial markets. The continued spread of the disease represents a significant risk that operations could be disrupted in the near future. The Organization was shut down to patrons from March 16, 2020 through June 7, 2020. The Organization let staff continue to work at the branches while receiving full pay and benefits to perform projects and assist with curbside services. At the current time the staff is still limited to 50% capacity due to government regulations. The extent to which COVID-19 may impact the Organization will depend on future developments and government regulations, which are highly uncertain and cannot be predicted. As a result, the Organization has not yet determined the impact this disruption may have on its financial statements for the year ending June 30, 2021.

NOTE 14 – SUBSEQUENT EVENTS

Management of the Organization has considered subsequent events through September 30, 2020, 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, 2020, 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 September 30, 2020.

### **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 as a basis for designing 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 (2020-1).

### **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 financial statements. 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, Waninger, Noble & Company, PLLC*

Craft, Waninger, Noble & Company, PLLC  
Richmond, Kentucky  
September 30, 2020

MADISON COUNTY PUBLIC LIBRARY  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2020

FINDINGS- FINANCIAL STATEMENT AUDIT

**2020-1**

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, 2020

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance
<b>Revenues</b>				
Taxing district revenues	\$ 3,445,549	\$ 3,445,549	\$ 3,287,792	\$ (157,757)
Grant revenues	145,100	145,100	155,037	9,937
Investment income	10,000	10,000	71,675	61,675
Public support	15,000	15,000	28,424	13,424
Other revenues	62,000	62,000	50,714	(11,286)
Total Revenues	<u>3,677,649</u>	<u>3,677,649</u>	<u>3,593,642</u>	<u>(84,007)</u>
<b>Expenditures</b>				
Personnel expenses	1,997,836	1,997,836	1,873,527	124,309
Library materials	430,000	430,000	396,575	33,425
Telephone and utilities	89,750	89,750	81,243	8,507
Insurance	55,000	55,000	57,800	(2,800)
Public relations	32,000	32,000	24,427	7,573
Programming	46,000	46,000	33,193	12,807
Office supplies	15,000	15,000	21,863	(6,863)
Postage	8,000	8,000	5,604	2,396
Legal and accounting	38,500	38,500	36,369	2,131
Summer reading	24,000	24,000	6,714	17,286
Van and bookmobile operations	13,000	13,000	13,739	(739)
Staff education and dues	23,000	23,000	31,115	(8,115)
Computer expenses	100,000	100,000	72,289	27,711
Telecommunication	20,000	20,000	19,758	242
Other expenses	18,000	18,000	46,568	(28,568)
Grounds maintenance	18,000	18,000	19,438	(1,438)
Building maintenance	65,000	65,000	91,636	(26,636)
Equipment repairs and rental	33,000	33,000	21,025	11,975
Maintenance supplies	25,000	25,000	16,255	8,745
Total Current Expenditures	<u>3,051,086</u>	<u>3,051,086</u>	<u>2,869,138</u>	<u>181,948</u>
Operating capital outlays	60,000	60,000	876,238	(816,238)
<b>Debt Service</b>				
Debt service on bonds	566,563	566,563	574,213	(7,650)
Total Expenditures	<u>3,677,649</u>	<u>3,677,649</u>	<u>4,319,589</u>	<u>(641,940)</u>
Net change in fund balance	-	-	(725,947)	(725,947)
Fund balance - beginning	-	-	4,705,741	
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,979,794</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, 2020, 2019, 2018, 2017, 2016, 2015 and 2014

	2020	2019	2018	2017	2016	2015	2014
Library's proportion of the net pension liability	0.040738%	0.045396%	0.036298%	0.040845%	0.039924%	0.038141%	0.038141%
Library's proportionate share of the net pension liability	\$ 2,865,244	\$ 2,764,755	\$ 2,123,656	\$ 2,011,075	\$ 1,714,560	\$ 1,237,085	\$ 1,396,312
Library's covered employee payroll	\$ 1,059,767	\$ 1,027,597	\$ 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	270.37%	269.05%	208.90%	202.32%	174.89%	133.67%	160.06%
Plan fiduciary net position as a percentage of the total pension liability	50.45%	53.54%	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, 2020, 2019, 2018, 2017, 2016, 2015, 2014 and 2013

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required employer contribution	\$ 190,416	\$ 166,676	\$ 147,205	\$ 138,666	\$ 123,497	\$ 118,763	\$ 120,227	\$ 95,591
Contributions relative to contractually required employer contribution	<u>\$ 190,416</u>	<u>\$ 166,676</u>	<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>\$ -</u>	<u>\$ -</u>	<u>\$ 3,862</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Company's covered employee payroll	\$1,059,767	\$1,027,597	\$1,016,609	\$ 994,023	\$ 980,354	\$ 925,475	\$ 872,393	\$ 774,415
Employer contributions as a percentage of covered-employee payroll	17.97%	16.22%	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, 2020

**County Employee Retirement System**

*Changes of benefit terms* – The following changes were adopted during the 2018 legislative session.

- Benefits paid to the spouses of deceased members have been increased from 25% of the member’s final pay rate to 75% of the member’s average pay. If the member does not have a surviving spouse, benefits paid to surviving children have been increased from 10% of the member’s final pay to 50% of the average pay for one child, 65% of the average pay for two children, or 75% of the average pay for three children.

*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:

2019

- Updated the mortality tables from RP-2000 to Pub-2010

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 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 reports in that schedule:

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, 2020, 2019, 2018, and 2017

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Library's proportion of the net OPEB liability	0.040738%	0.045396%	0.036298%	0.040845%
Library's proportionate share of the net OPEB liability	\$ 685,029	\$ 808,731	\$ 729,710	\$ 572,363
Library's covered employee payroll	\$ 1,059,767	\$ 1,027,597	\$ 1,016,609	\$ 994,023
Library's share of the net OPEB liability as a percentage of its covered employee payroll	64.64%	78.70%	71.78%	57.58%
Plan fiduciary net position as a percentage of the total OPEB liability	50.45%	57.62%	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, 2020, 2019, 2018, and 2017

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required employer contribution	\$ 64,564	\$ 54,052	\$ 47,781	\$ 47,017
Contributions relative to contractually required employer contribution	<u>\$ 64,564</u>	<u>\$ 54,052</u>	<u>\$ 47,781</u>	<u>\$ 45,516</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,501</u>
 Company's covered employee payroll	 \$ 1,059,767	 \$ 1,027,597	 \$ 1,016,609	 \$ 994,023
Employer contributions as a percentage of covered-employee payroll	6.09%	5.26%	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, 2020

**County Employee Retirement System**

*Changes of benefit terms* – The following changes were adopted during the 2018 legislative session.

- The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty.

*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:

2019

- Updated the mortality tables from RP-2000 to Pub-2010
- The single discount rate was decreased from 5.84% to 5.68%

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%

*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 reports in that schedule:

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