

MADISON COUNTY PUBLIC LIBRARY
FINANCIAL STATEMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED JUNE 30, 2011



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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
Madison County Public Library

We have audited the accompanying financial statements of the governmental activities of the Madison County Public Library as of and for the year ended June 30, 2011, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Madison County Public Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Madison County Public Library as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 2, 2011, on our consideration of the Madison County Public Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information beginning on page 2 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Craft, Noble & Company, PLLC

Craft, Noble & Company, PLLC
September 2, 2011



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**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 City for the fiscal year ended June 30, 2011. Please read this MD&A in conjunction with the Library's Financial Statements, which follow.

Financial Highlights

- I. The Library spent approximately 11% of its tax revenues on Library Materials.*
- II. The Library's share of the property tax increased 19.77% from the previous fiscal year.*
- III. The Library continues to spend on improved equipment and improved services.*

Overview of the Financial Statements

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

Required Financial Statements

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

Government-Wide Statements

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

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

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

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

Fund Financial Statements

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

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

Financial Analysis of the Library as a Whole

Below is an analysis of the comparative statement of net assets for the years ending June 30, 2011 and 2010.

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Variance</u>
Capital assets, net of depreciation	\$ 6,471,423	\$ 6,621,286	\$ (149,863)
Other assets	3,346,184	2,500,053	846,131
Long-term liabilities	4,958,060	5,163,624	205,564
Current liabilities	301,329	287,571	13,758
Unrestricted net assets	4,558,218	3,670,144	888,074

The Library's main source of revenue is property tax, which is approximately 93% of the Library's total revenue. The personnel expense represents 48.5% of total expenditures, while the state average is 61.2%. The personnel expenditure increased 13.8% from the prior year. This was due to adding 9 operating hours to each location per week, with an additional of 6 full time equivalent employees. Additionally, the Library's obligatory payments to the Kentucky Retirement System increased significantly from 2010, and it is expected to increase again in the current fiscal year.

Financial Analysis of the Library as a Whole (Continued)

Revenue and Expense Comparison for the years ended:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Variance</u>
Taxing district revenues	\$ 2,866,491	\$ 2,393,420	\$ 473,071
Grant revenues	41,119	35,537	5,582
Investment income	63,708	22,374	41,334
Public support	20,587	3,342	17,245
Other revenues	80,132	79,423	709
Total revenues	<u>3,072,037</u>	<u>2,534,096</u>	<u>537,941</u>
Personnel expenses	1,058,607	916,286	142,321
Library materials	308,846	291,915	16,931
Telephone and utilities	48,378	44,638	3,740
Insurance	27,913	23,062	4,851
Public relations	13,561	17,417	(3,856)
Programming	24,347	13,404	10,943
Office supplies	23,443	17,209	6,234
Postage	12,340	14,468	(2,128)
Legal and accounting	18,638	17,108	1,530
Summer reading	7,885	5,496	2,389
Van and bookmobile operations	9,073	2,558	6,515
Staff education and dues	8,845	6,211	2,634
Computer expenses	37,690	16,638	21,052
Telecommunication	5,847	4,383	1,464
Amortization	10,179	10,179	-
Other expenses	28,808	12,404	16,404
Grounds maintenance	12,175	9,473	2,702
Building maintenance	64,455	72,048	(7,593)
Maintenance supplies	12,133	13,388	(1,255)
Equipment repairs and rental	14,067	16,155	(2,088)
Interest	214,248	236,491	(22,243)
Depreciation	222,485	222,009	476
Total expenditures	<u>2,183,963</u>	<u>1,982,940</u>	<u>201,023</u>
Change in fund balance	<u>\$ 888,074</u>	<u>\$ 551,156</u>	<u>\$ 336,918</u>

Capital Asset Activity

Capital asset activity was rather light during the year. Capital activity involved purchase of operating equipment for the Library function and several larger-scale projects. These included the demolition and rebuilding of the entry stairs at the Richmond facility, necessary due to the unevenness of the tread and rise from step to step that was out of code and a potential organizational liability. Other projects of note included a total resealing of all windows in the Richmond location, including resealing to headers, in an effort to address the significant window leaks; purchase and installation of a second Library on the Go unit in Waco; installation of new lighting in the Richmond Children's area; addition of a concrete pad at the back of the Berea location; creation of an office for the Library Director at the Berea location; installation of theater lighting at the Berea location; and furniture/shelving purchases.

Budget Highlights

The Library adopts an annual budget at the May Board meeting after it has been presented in April for discussion. The budget is done through a cooperative team of Board members and staff members plus the Bookkeeper. Several meetings are held prior to the April Board meeting, and goals for the next year are established by the staff and possible expenditures related to those goals are identified. The Operating Budget includes proposed expenses and

Budget Highlights (Continued)

the means of financing them. The Library's operating budget is amended during the year if unusual events occur. A Fiscal 2011 budget comparison for the current month and year to date is presented to management and the Board of Trustees as interim financial statements; however, they are not reported on, nor shown, on the financial statements section of this report. A procurement code has been established by the Board to give direction to larger spending amounts.

The Library has operated on a zero balance budget so that at the end of the fiscal year each budget category reverts back to the new balance for the new year. Each year the library staff has worked diligently to keep the overall budget in line with the projected budget. Some categories may be over but in general the overall amounts are taken to the Board of Trustees for approval before the purchase is made. Please note that this budget comparison is prior to any audit adjustments and reclassification of library charges out of correlating expense accounts (i.e. copying fees are shown net in copy expenses for budget purposes). A summarized comparison of budget highlights is listed below:

Budget Comparison for 2011 – 2010

	<u>Budgeted</u>	<u>Actual Amount</u>	<u>Difference</u>
Net Revenue	\$ 2,437,094	\$ 3,072,037	\$ 634,943
Library Materials	265,532	245,308	20,224
Circulation/Processing	70,720	63,538	7,182
Technology	55,341	43,537	11,804
Employee Expenses	1,095,664	1,058,607	37,057
Operating Expenses	315,460	281,043	34,417
Bookmobile/Van	20,000	9,073	10,927
Education/Travel	8,000	8,845	(845)
Other Expenses	<u>606,377</u>	<u>526,074</u>	<u>80,303</u>
Total Budgeted	<u>\$ -</u>	<u>\$ 836,012</u>	<u>\$ 836,012</u>

Debt Administration

The Library maintains a strict budget for the purpose of being able to meet their bond issue payments. These numbers are figured into the budget yearly. The Board is working with a financial consultant and attorney to establish restricted accounts for Depreciation, Contingency, and Capital Development. All debt is reducing per terms of applicable notes and bond issues. The terms of such are discussed thoroughly in the notes to the attached financial statements.

Economic Factors and Next Year's Budget

The Library considers many factors when setting the fiscal year 2012 budget. One of the factors is the local economy and anticipated tax revenue to be expected from the property tax. This is the Library's main source of revenue. The Library's operating expense increases and future capital expansion plans are dependent upon growth in tax revenue. The Library anticipates the need for expanded and improved library service according to its strategic plan.

Contacting the Library Management

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

Madison County Public Library
Statement of Net Assets
June 30, 2011

	<u>2010</u>
Assets	
Current Assets:	
Cash and cash equivalents	\$ 1,767,676
Investments	1,554,793
Accounts receivable	11,215
Prepaid expenses	<u>12,500</u>
Total Current Assets	3,346,184
Fixed Assets:	
Depreciable buildings, property and equipment, net of depreciation	6,000,231
Land	<u>471,192</u>
Total Fixed Assets	<u>6,471,423</u>
 Total Assets	 <u><u>\$ 9,817,607</u></u>
Liabilities and Net Assets	
Liabilities:	
Current Liabilities:	
Accounts payable	\$ 25,729
Interest payable	55,100
Current portion of bond payable	215,000
Current portion of compensated absences	<u>5,500</u>
Total Current Liabilities	301,329
Long-Term Obligations:	
Compensated absences	71,684
Bond payable net of bond issue cost and discount of \$178,624	<u>4,886,376</u>
Total Long-Term Obligations	4,958,060
 Total Liabilities	 <u>5,259,389</u>
Net Assets	
Unrestricted	<u>4,558,218</u>
 Total Liabilities and Net Assets	 <u><u>\$ 9,817,607</u></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, 2011

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
				Primary Government
Governmental activities				
Cultural and recreations	\$(2,183,962)	67,696	61,706	\$ (2,054,560)
				General Revenues:
				Taxing district revenues \$ 2,866,491
				Investment income 63,708
				Other income 12,435
				Total general revenues 2,942,634
				Change in net assets 888,074
				Net assets - beginning 3,670,144
				Net assets - ending \$ 4,558,218

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

Madison County Public Library
Balance Sheet
Governmental Fund
June 30, 2011

	Governmental Fund
Assets	
Cash and cash equivalents	\$ 1,767,676
Investments	1,554,793
Accounts receivable	11,215
Prepaid expenses	12,500
Total Assets	\$ 3,346,184
Liabilities and Fund Balances	
Liabilities	
Accounts payable	\$ 25,729
Compensated absences	5,500
Total Liabilities	\$ 31,229
Fund Balances	
Unreserved, reported in:	
General Fund	\$ 3,314,955
Total Fund Balances	\$ 3,314,955
 Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund	6,471,423
Certain liabilities (including net bonds and notes payable, capital leases and compensated absences) are not due and payable in the current period and, therefore, not reported in the fund	(5,228,160)
Net assets of governmental activities	\$ 4,558,218

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

Madison County Public Library
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund
For The Year Ended June 30, 2011

	Governmental Fund
Revenues	
Taxing district revenues	\$ 2,866,491
Grant revenues	41,119
Investment income	63,708
Public support	20,587
Other revenues	80,132
Total Revenue	3,072,037
Expenditures	
Current	
Personnel expenses	1,058,607
Library materials	308,846
Telephone and utilities	48,378
Insurance	27,913
Public relations	13,561
Programming	24,347
Office supplies	23,443
Postage	12,340
Legal and accounting	18,638
Summer reading	7,885
Van and bookmobile operations	9,073
Staff education and dues	8,845
Computer expenses	37,690
Telecommunication	5,847
Other expenses	29,204
Grounds maintenance	12,175
Building maintenance	78,296
Equipment repairs and rental	14,067
Total Expenditures	1,739,155
Operating capital outlays	72,622
Debt Service	
Principal	210,000
Interest	214,248
Less: total expenditures	2,236,025
Net change in fund balance	836,012
Fund balance - beginning	2,478,943
Fund balance - ending	\$ 3,314,955

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, 2011

Reconciliation to the Statement of Activities:

Net Change in Fund Balance - Total Governmental Fund	\$	836,012
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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		72,622
Depreciation Expense		(222,485)
Amortization Expense		(10,179)

Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of assets.		210,000
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Governmental 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.		2,104
		2,104

Change in Net Assets of Governmental Activities	\$	888,074
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Madison County Public Library
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
For The Year Ended June 30, 2011

Revenues	Enacted Budget	Actual	Favorable (Unfavorable) Balance
Taxing district revenues	\$ 2,306,969	\$ 2,866,491	559,522
Grant revenues	30,000	41,119	11,119
Investment Income	20,522	63,708	43,186
Public support	5,000	20,587	15,587
Other revenues	74,603	80,132	5,529
Total Revenue	2,437,094	3,072,037	634,943
Expenditures			
Current			
Personnel expenses	1,095,664	1,058,607	37,057
Library materials	336,252	308,846	27,406
Telephone and utilities	59,310	48,378	10,932
Insurance	27,000	27,913	(913)
Public relations	17,000	13,561	3,439
Programming	21,000	24,347	(3,347)
Office supplies	28,000	23,443	4,557
Postage	20,000	12,340	7,660
Legal and accounting	20,150	18,638	1,512
Summer reading	11,000	7,885	3,115
Van and bookmobile operations	20,000	9,073	10,927
Staff education and dues	8,000	8,845	(845)
Computer expenses	48,341	37,690	10,651
Telecommunication	7,000	5,847	1,153
Other expenses	142,098	29,204	112,894
Grounds maintenance	9,000	12,175	(3,175)
Building maintenance	72,000	66,163	5,837
Maintenance supplies	17,000	12,133	4,867
Equipment repairs and rental	14,000	14,067	(67)
Total Expenditures	1,972,815	1,739,155	233,660
Operating capital outlays	40,000	72,622	(32,622)
Debt Service			
Debt service on bond issue	424,279	424,248	31
Less: total expenditures	2,437,094	2,236,025	201,069
Net change in fund balance	-	836,012	836,012
Fund balance - beginning	2,478,943	2,478,943	2,478,943
Fund balance - ending	<u>\$ 2,478,943</u>	<u>\$ 3,314,955</u>	<u>\$ 3,314,955</u>

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

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Madison County Public Library was created in 1987 as a taxing district. This public library district was formed by the Madison County Fiscal Court pursuant to K.R.S. 65.182 et. seq. and K.R.S. 173.450 et. seq. The public library district was created to provide all Madison County residents with access to public library services, and to establish, equip, maintain and administer a countywide public library system. A countywide tax shall be collected for the public library district in the manner described in K.R.S. 65.182 and other applicable law. The affairs of the public library district shall be operated by a Board of Trustees as set forth by K.R.S. 173.450.

Basis of Presentation

The financial statements of the Madison County Public Library District have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Standards Board is the accepted standards-setting body for establishing governmental accounting and financial reporting principles.

Government-Wide Financial Statements – The Statement of Net Assets and the Statement of Activities display information about the library’s taxing district as a whole.

Fund Financial Statements – are organized into funds, each of which is considered separately. The library has only one such governmental fund that accounts for the daily operating activity of the library. A description of such fund is as follows:

- The General Fund is the primary and only operating fund of the library. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use.

Basis of Accounting

In the government-wide Statement of Net Assets and the Statement of Activities, all activities are presented under the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Property taxes are recorded as revenue when collected and available to be remitted to District 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.

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Receivables and Property Tax Revenues

In the government-wide statements, property tax revenues are recognized when they become available. Available property tax revenues includes those property tax receivables expected to be collected within sixty-days after year-end. Delinquent taxes are considered fully collectible and, therefore, no allowance for uncollectible taxes is provided.

Property, Equipment and Depreciation

Property and equipment is stated at cost or, if donated, at the approximate fair value at the date of donation. All property and equipment purchases have been capitalized and recorded in the government-wide financial statements. Additionally, as all capital assets are directly utilized in the Library’s operating activities, an expense for capital outlays has been reported on the fund financial statements. The Library expenses all books and materials as purchased and does not capitalize such items.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Depreciation for the year ended June 30, 2011 was \$222,485.

Use of Estimates

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

NOTE 2 – LONG-TERM OBLIGATIONS

A summary of changes in long-term debt follows:

	<u>Compensated Absences</u>	<u>Bond Payable</u>	<u>Total</u>
Payable at June 30, 2010	\$ 77,927	\$ 5,490,000	\$ 5,567,927
Net decrease in compensated absences	(743)	-	\$ (743)
Debt retired	-	(210,000)	\$ (210,000)
Payable at June 30, 2011	<u>\$ 77,184</u>	<u>\$ 5,280,000</u>	<u>\$ 5,357,184</u>

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2 – LONG-TERM OBLIGATIONS (CONTINUED)

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

Year Ended 30-Jun	Principal	Interest	Total
2012	\$ 215,000	\$ 206,636	\$ 421,636
2013	220,000	198,843	418,843
2014	230,000	190,731	420,731
2015	235,000	182,336	417,336
2016	250,000	173,495	423,495
2017 – 2021	1,405,000	715,342	2,120,342
2022 – 2026	1,710,000	411,225	2,121,225
2027 – 2030	1,015,000	94,561	1,109,561

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011 was as follows:

Governmental Activities	July 1, 2010	Additions	June 30, 2011
Land	\$ 471,193	\$ -	\$ 471,193
Buildings	6,659,799	40,430	6,700,229
Furniture and equipment	910,311	32,192	942,503
Total at historical cost	<u>8,041,303</u>	<u>72,622</u>	<u>8,113,925</u>
Less: Accumulated Depreciation			
Buildings	878,474	167,015	1,045,489
Furniture and equipment	541,543	55,470	597,013
Total accumulated depreciation	<u>1,420,017</u>	<u>222,485</u>	<u>1,642,502</u>
Capital assets – net	<u>\$ 6,802,784</u>	<u>\$ (149,863)</u>	<u>\$ 6,471,423</u>

NOTE 4 – PUBLIC SUPPORT

Total public support (including Friends of the Madison County Public Library) \$20,587

The Friends of the Madison County Public Library Organization is a separate organization formed by individuals wishing to help the Madison County Public Library raise funds for various projects. The Friends Organization is not a part of the Madison County Public Library.

NOTE 5 – COMPENSATED ABSENCES

It is the Library's policy to compensate all employees for certain absences not used at the end of their employment. As of June 30, 2011 the liability for these absences was \$77,184 and has been included in the personnel expenses. Such liability is recorded in the government-wide financials.

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6 – RETIREMENT PLAN

The Organization is a participating employer in the County Employees’ Retirement System (CERS), which is a cost sharing, multi-employer defined benefit plan. CERS provides retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Funding for the plan is provided through payroll withholding and contributions by the Organization. Non-hazardous positions are withheld at the rate of 5% of the employee’s total compensation subject to contribution. The Organization contributed 16.93% for June 30, 2011.

The Organization covered payroll for the years ending June 30, 2011, 2010, and 2009 was \$755,812, \$659,403 and \$600,645 respectively. The Organizations contribution requirement for CERS for the years ending June 30, 2011, 2010 and 2009 were \$114,615, \$93,601 and \$75,810, respectively. This represents 100% of the required contribution.

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

NOTE 7 – CONCENTRATION OF CREDIT RISK

The Library maintains cash and cash equivalents in local banks which may, at times, exceed the FDIC limits. The Library’s cash and cash equivalents are categorized as either (1) insured or collateralized with securities held by the entity or by its agent in the entity’s name, (2) collateralized with securities held by 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, 2011 was as follows:

Category 1	\$	250,218
Category 2	\$	1,536,585
Category 3	\$	-

NOTE 8 – BOND ISSUE SERIES 2006

During February 2006, the library issued a series of general obligation bonds to refund the Series 2000 Bonds used to fund the renovation of the Richmond building. The total face value of the bonds issued was \$2,740,000. The interest rate for the bonds issued varies from 3.625% to 4.25%. Interest is due semi-annually on June 1 and December 1. During the year ended June 30, 2011, there was a reduction in principal of \$80,000. All bonds will mature on December 1, 2030. The maturities of bonds payable \$2,345,000 are summarized as follows:

	Principal	Interest	Total
June 2012	\$ 80,000	\$ 92,185	\$ 172,185
June 2013	80,000	89,285	169,285
June 2014	85,000	86,284	171,284
June 2015	85,000	83,181	168,181
June 2016	90,000	79,965	169,965
June 2017 – 2021	520,000	343,552	863,552
June 2022 – 2026	630,000	230,025	860,025
June 2027 – 2030	775,000	84,961	859,961
Total	\$ 2,345,000	\$ 1,089,438	\$ 3,434,438

MADISON COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 9 – BOND ISSUE SERIES 2006B

During October 2006, the library issued a series of general obligation bonds to fund the construction of the Berea building. The total face value of the bonds issued was \$3,440,000. The interest rate for the bonds issued varies from 3.65% to 4.00%. Interest is due semi-annually on August 1 and February 1. During the year ended June 30, 2011, there was a reduction in principal of \$130,000. All bonds will mature on December 1, 2027. The maturities of bonds payable \$2,935,000 are summarized as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 2012	\$ 135,000	\$ 114,451	\$ 249,451
June 2013	140,000	109,558	249,558
June 2014	145,000	104,447	249,447
June 2015	150,000	99,155	249,155
June 2016	160,000	93,530	253,530
June 2017 – 2021	885,000	371,790	1,256,790
June 2022 – 2026	1,080,000	181,200	1,261,200
June 2027	240,000	9,600	249,600
Total	<u>\$ 2,935,000</u>	<u>\$ 1,083,731</u>	<u>\$ 4,018,731</u>

NOTE 10 – BOND ISSUANCE COSTS AND BOND DISCOUNTS

The Library incurred certain costs in relation to the 2006 and 2006B Series Bond Issues. These costs are shown netted against Bonds payable on the Statement of Net Assets. Both costs are amortized over the life of the bonds. Amortization as of June 30, 2011 for bond issue costs and discount were \$29,880 and \$21,596, respectively. The remaining amount of bond issue cost and discount as of June 30, 2011 is \$178,624.

NOTE 11 – RISK MANAGEMENT

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the library also carries commercial insurance for all other risks of loss such as worker’s compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE 12 – PROPERTY TAX CALENDAR

Property taxes for fiscal year 2011 were levied on October 1, 2010 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, 2011

NOTE 13 – SUBSEQUENT EVENTS

Management of the Organization has considered subsequent event through September 2, 2011, the date this report becomes available for issue.

NOTE 14 – INVESTMENTS

Investments are presented in the financial statements as of June 30, 2011 as current assets because they are available to meet current obligations. Investments consist of publicly traded bonds and notes. Market values and unrealized appreciation at June 30, 2011 are as follows:

<u>Type of Security</u>	<u>Cost</u>	<u>Market Value</u>	<u>Appreciation</u>
Bonds & Notes	\$ 1,527,430	\$ 1,554,793	\$ 27,363
	<u>\$ 1,527,430</u>	<u>\$ 1,554,793</u>	<u>\$ 27,363</u>

During the year ended June 30, 2011 the Organization realized gains of \$2,286 on the disposition of assets, and recognized unrealized gains totaling \$21,658.

For assets measured at fair market value on a recurring basis during the period, this statement requires quantitative disclosures about the fair value measurements separately for each major category of assets and liabilities.

Fair Value Measurements at Reporting Date Using

<u>Description</u>	<u>June 30, 2011</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Trading Securities	\$ 1,554,793	\$ 45,981	\$ 1,508,812	\$ -

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Madison County Public Library
Richmond, Kentucky

We have audited the financial statements of Madison County Public Library as of and for the year ended June 30, 2011, and have issued our report thereon dated September 2, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Madison County Public Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Madison County Public Library's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statement that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2011-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.



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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance

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

The Organization's response to the findings identified in our audit is described in the paragraphs above. We did not audit the Organization's response and, accordingly, we express no opinion on it.

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

Craft, Noble & Company, PLLC

Craft, Noble & Company, PLLC
September 2, 2011

MADISON COUNTY PUBLIC LIBRARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

B. FINDINGS- FINANCIAL STATEMENT AUDIT

2011-1

Criteria:

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

Condition:

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

Cause:

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

Effect:

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

Organization Response and Corrective Action Plan:

It does not appear that it would be economically feasible for our Organization to enlarge our staff or contract an individual with appropriate skill and knowledge in applying new authoritative guidance. Thus, it is important that our Board provide oversight and independent review functions. We did not audit the Organization's response and, accordingly, we express no opinion on it.