

HENRY COUNTY PUBLIC LIBRARY

FINANCIAL STATEMENTS

Year Ended June 30, 2016

With

Independent Auditor's Report

HENRY COUNTY PUBLIC LIBRARY

FINANCIAL STATEMENTS

Year Ended June 30, 2016

With

Independent Auditor's Report

TABLE OF CONTENTS

	<u>PAGES</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
<u>REQUIRED SUPPLEMENTARY INFORMATION:</u>	
Management's Discussion and Analysis	3 - 4
<u>BASIC FINANCIAL STATEMENTS:</u>	
Governmental Funds Balance Sheet and Statement of Net Position	5
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	6
Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance and Statement of Activities	7
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	8
Schedule of Expenditures	9
Notes to the Basic Financial Statements	10 – 18
<u>REQUIRED SUPPLEMENTARY INFORMATION:</u>	
Schedule of Revenues, Expenditures and Changes Fund Balance – Budget and Actual – General Fund	19
Schedule of the Library's Proportional Share of the Net Pension Liability	20
Schedule of Library Contributions	21
<u>OTHER SUPPLEMENTARY INFORMATION:</u>	
<u>GOVERNMENTAL AUDITING STANDARDS</u>	
Independent Auditors' 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>	22 - 23

DePRIE & ADKISSON, PSC
Certified Public Accountants

12730 Townepark Way, Suite 103
Louisville, Kentucky 40243

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Henry County Public Library
Eminence, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund of the Henry County Public Library, as of and for the year ended June 30, 2016, 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 the general purpose 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 general purpose financial statements are free of material misstatement.

An audit involves performing procedures to obtain 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 statement, 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 appropriated 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund of the Henry County Public Library as of June 30, 2016, 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.

To the Board of Directors
Henry County Public Library
Page 2

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 4, and 19 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 the 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 Audit Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2016, on our consideration of the Henry 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 of financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Henry County Public Library's internal control over financial reporting and compliance.

DePrie & Adkisson, PSC

Certified Public Accountants

September 21, 2016

Henry County Public Library Management Analysis and Discussion FY 2015/2016

The Henry County Public Library is a special purpose government entity authorized under KRS 173.340. The Henry County Public Library Board of Trustees sets and approves the budget based on the annual fiscal year starting July 1st and ending June 30th. The five-member governing board operates under fixed terms as specified by law and meets on a monthly basis. In addition to having annual audits performed, the Henry County Public Library system completes an annual report for the Kentucky Department of Libraries and Archives that contains financial and other detailed statistical information, as well as an annual report for the Department of Local Government known as the Uniform Financial Information Report (UFIR).

According to the US Census, the estimated county population was 15,620 in 2015 with almost no growth predicted for the county in the next 50 years, though Shelby and Oldham counties could see large population gains.

The library received \$813,998 in total revenue, with \$772,811 coming from local property taxes. The Kentucky Department of Libraries and Archives provided \$15,618 in grant aid from the Commonwealth of Kentucky. Other miscellaneous income, including property insurance reimbursements, interest income, fine and copier fee income, and donations amounted to \$25,569. The library spent \$608,992 in 2015/2016 with \$398,278 going to salaries and benefits (on par with the national average for a libraries serving similar populations), \$63,996 for library materials including books, DVDs, and periodicals, \$1,549 towards running and maintaining the bookmobile, \$142,968 for operating expenses such as library programming, IT expenses, online database access, and building maintenance and utilities, and \$2,131 for capital outlay. As of June 30th, 2016 the library had a net position of \$1,204,709. Some of the apparent surplus is needed to carry the costs of the library until the bulk of its tax income arrives in late fall. The rest is earmarked for future construction projects.

The library facilities are currently below minimum Kentucky standards in regard to square footage per capita, a fact that shows itself when trying to improve services. Issues with plumbing and other maintenance problems show the building's age. The past year required repair of three HVAC units, mold remediation, and many plumbing repairs. The design of the current facility inhibits the provision of 21st century library services and makes incorporating new technologies difficult. The library did upgrade to fiber optic internet service to improve speeds, but wiring issues have complicated other improvements. Plans are in place to build a new library to replace the current building in the next two to three years.

The library has seen the needs of the community evolve as technology plays an ever more important role in all of our lives. Half of Henry County does not have access to reliable high speed internet, so free library wi-fi and computers have become all the more necessary for residents. Over 13,000 people came to the library to use a computer and over 14,000 used the free wifi in 2015/2016, a 75% increase over the previous year. Over 5,800 children visited the library for high quality educational programming and over 1,200 adults came for one-on-one technology training classes, job hunting, and other workshops.

We also make regular visits to day cares, senior centers, and homebound patrons with our bookmobile service. The library's mission is to provide education, information, and entertainment to the residents of Henry County, which we did during over 72,000 visits in 2015/2016, an increase of 10%. We are proud to have saved Henry County residents an estimated \$1,730,000 with the free resources provided by the library, a 123% return on investment.

If you have questions about this report or would like additional financial information, contact Jessica Powell, Director, Henry County Public Library, 172 Eminence Terrace, Eminence, KY, 502-845-5682.

**HENRY COUNTY PUBLIC LIBRARY
GOVERNMENTAL FUNDS BALANCE SHEET
AND STATEMENT OF NET POSITION
June 30, 2016**

	General Fund	Total	Adjustments (Note B)	Statement of Net Position
ASSETS				
Cash	\$ 1,072,360	\$ 1,072,360	\$ -	\$ 1,072,360
Investments	161,737	161,737	-	161,737
Accrued interest receivable	-	-	-	-
Property taxes receivable	4,666	4,666	-	4,666
Capital assets, net of accumulated depreciation	-	-	358,013	358,013
TOTAL ASSETS	1,238,763	1,238,763	358,013	1,596,776
DEFERRED OUTFLOWS OF RESOURCES				
District contributions subsequent to measurement date	-	-	84,450	84,450
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	1,238,763	1,238,763	442,463	1,681,226
LIABILITIES				
Accounts payable	6,402	6,402	-	6,402
Other current liabilities	3,609	3,609	-	3,609
Accrued compensated liabilities	-	-	16,539	16,539
Net pension liability	-	-	399,967	399,967
TOTAL LIABILITIES	10,011	10,011	416,506	426,517
DEFERRED INFLOWS OF RESOURCES				
Difference between projected and actual earnings of pension plan	-	-	-	-
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	10,011	10,011	416,506	426,517
FUND BALANCES/NET POSITION				
Fund balances				
Unspendable	-	-	-	-
Restricted	-	-	-	-
Unassigned	1,228,752	1,228,752	(1,228,752)	-
TOTAL FUND BALANCES	1,228,752	1,228,752	(1,228,752)	-
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 1,238,763	\$ 1,238,763		\$ 426,517
Net Position				
Invested in capital assets, net of related debit			358,013	358,013
Restricted			-	-
Unrestricted			896,696	896,696
TOTAL NET POSITION			1,254,709	1,254,709
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			\$ 442,463	\$ 1,681,226

See Accompanying Notes to Financial Statements

**HENRY COUNTY PUBLIC LIBRARY
RECONCILIATION OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION**

For The Year Ended June 30, 2016

Fund balances - total governmental funds		\$ 1,228,752
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 funds.		358,013
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Compensated absences	(16,539)	
Bonds payable	-	
Net pension liability	<u>(399,967)</u>	(416,506)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reportable in funds.		
Deferred outflows of resources	84,450	
Deferred inflows of resources	<u>-</u>	84,450
Net Position		<u><u>\$ 1,254,709</u></u>

HENRY COUNTY PUBLIC LIBRARY
GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES AND STATEMENT OF ACTIVITIES

For The Year Ended June 30, 2016

	General Fund	Total	Adjustments (Note B)	Statement of Activities
REVENUES				
Property taxes	\$ 772,811	\$ 772,811	\$ -	\$ 772,811
Governmental grants	15,618	15,618	-	15,618
Gifts and contributions	-	-	-	-
Book rentals and fines	3,997	3,997	-	3,997
Copier and fax income	7,415	7,415	-	7,415
Investment income	4,669	4,669	-	4,669
Miscellaneous income	9,488	9,488	-	9,488
TOTAL REVENUES	813,998	813,998	-	813,998
EXPENDITURES/EXPENSES				
Personnel	398,278	398,278	18,396	416,674
Library materials	63,996	63,996	(53,782)	10,214
Bookmobile expenses	1,549	1,549	-	1,549
Operating expenses	142,968	142,968	-	142,968
Capital outlay	2,131	2,131	(2,131)	-
Depreciation	-	-	74,736	74,736
Debt service - principal	-	-	-	-
Debt service - interest	-	-	-	-
TOTAL EXPENDITURES/EXPENSES	608,922	608,922	37,219	646,141
EXCESS OF REVENUES OVER EXPENDITURES/EXPENSES	205,076	205,076	(37,219)	167,857
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	-	-	-
Proceeds from sale of surplus equipment	-	-	-	-
Transfers	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-
CHANGE IN FUND BALANCES/ NET POSITION	205,076	205,076	(37,219)	167,857
PRIOR PERIOD ADJUSTMENT	-	-	(10,678)	(10,678)
FUND BALANCE/NET POSITION, BEGINNING	1,023,676	1,023,676	23,854	1,047,530
FUND BALANCE/NET POSITION, ENDING	\$ 1,228,752	\$ 1,228,752	\$ (24,043)	\$ 1,204,709

See Accompanying Notes to Financial Statements

HENRY COUNTY PUBLIC LIBRARY

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES

For The Year Ended June 30, 2016

Net change in fund balances - total governmental funds \$ 205,076

Amounts reported for governmental activities in the statement of activities are different because:

Government funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$74,736) exceeded capital outlay (\$55,913) in the current period. (18,823)

Some expenditures reported in the statement of net assets do not require the use of current financial resources and, therefore, are not reported in the governmental funds. Those items at year end consist of:

Compensated absences 3,602

Governmental funds report Library pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned, net of employer contributions, is reported as pension expense.

Amortization of deferred inflow of resources:

District pension contributions (21,998)
Costs of benefits earned -

 (21,998)

Current year change to Net Position \$ 167,857

**HENRY COUNTY PUBLIC LIBRARY
SCHEDULE OF EXPENDITURES**

For The Year Ended June 30, 2016

Personnel	
Librarian and library staff	282,721
Payroll taxes	22,343
Pension expense	45,220
Insurance	47,994
	<hr/>
Total Personnel	398,278
Library materials	
Books	39,141
Periodicals	2,906
Audio/video	11,736
Library supplies	10,213
	<hr/>
Total Library Materials	63,996
Bookmobile Expenses	
Operations	1,549
Repairs	-
	<hr/>
Total Bookmobile Expenses	1,549
Operating expenses	
Utilities	13,649
Telephone	2,924
Maintenance	12,592
Cleaning service	16,545
Insurance	11,364
Office supplies	2,503
Postage	771
Copy expense	3,060
Computer maintenance and software	27,893
Dues	847
Travel	1,514
Professional fees	10,540
Program expense	13,806
Public relations	10,502
Staff training	1,655
Equipment/furniture/building	9,100
Miscellaneous expense	3,703
	<hr/>
Total Operating Expenses	142,968
Capital Outlay	
Debt service	-
Other	2,131
	<hr/>
Total Capital Outlay	2,131
Total Expenses	608,922
	<hr/> <hr/>

See Accompanying Notes to Financial Statements

HENRY COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A - DESCRIPTION OF ORGANIZATION

The Henry County Public Library was established under the provisions of the Commonwealth of Kentucky to provide library and related services to the citizens of Henry County, Kentucky. The Library is governed by a five-member Board of Directors who governs with fixed terms as specified by law

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Library have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Library's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, including Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis*, which mandates the new reporting model implemented by the Library. The more significant of the Library's accounting policies are described below.

- (1) **Reporting Entity** – The Library is the basic level of government that has oversight responsibility and control over all activities related to the public library in Henry County, Kentucky. The Library receives funding from local and state government sources and must comply with the requirements of these funding source entities. However, the Library is not included in any other governmental “reporting entity” as defined by the GASB pronouncement, since Library board members have decision-making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.
- (2) **Government-Wide and Fund Financial Statements** – The financial statement presentation for the Library includes separate columns reporting a statement of net assets and a statement of activities. These statements present a government-wide presentation of all activities of the Library.
- (3) **Measurement Focus, Basis of Accounting, and Financial Statement Presentation** – The government-wide statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Both long-term and current assets and liabilities are included in the statement of net assets.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Only current assets and current liabilities generally are included on the balance sheet. Property tax revenues and revenues from the Commonwealth of Kentucky are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

HENRY COUNTY PUBLIC LIBRARY
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (4) **Fund Accounting** – The Library uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Library uses governmental funds.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

The Library reports the following major governmental funds:

General Fund – The General Fund is used to account for all financial resources of the Library except those required to be accounted for in another fund. The general fund balance is available to the Library for any purpose provided it is expended or transferred according to the laws of the Kentucky and the bylaws of the Library.

Endowment Fund – The Library uses the Endowment Fund to account for resources to be used for all genealogical acquisitions.

Fund Balances

GASB Statement 54 provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the Library's fund balances more transparent. In the fund financial statements, governmental fund balances can be presented in five possible categories:

Non-spendable – resources which cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

Restricted – resources with constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors or governmental laws or regulations or imposed by law through constitutional provisions or enabling legislation.

Committed – resources which are subject to limitations the Library imposed on itself at its highest level of decision making and that remain binding unless removed in the same manner.

Assigned – resources neither restricted nor committed for which a government has a stated intended use as established by the governing body or by an official to which the governing body delegates authority.

Unassigned – amounts that are available for any purpose. The General Fund is the only fund that reports a positive unassigned fund balance amount.

HENRY COUNTY PUBLIC LIBRARY
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (5) **Budget** – The Library adopts an annual budget for the general fund. The budget is prepared on the cash basis, a comprehensive basis of accounting other than GAAP. The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized and recorded when received in cash and when paid, respectively. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting on the governmental fund statements and on the full accrual basis on the government-wide statements. A reconciliation of the cash basis actual amounts in the budgetary comparison to the GAAP basis actual amounts in the fund and government-wide statements is shown at the bottom of the budgetary comparison schedule. The amended budget amounts presented in the accompanying financial statements have been adjusted for authorized amendments of the annual budget adopted by the Library Board of Trustees. All appropriations lapse at year end.
- (6) **Cash and Cash Equivalents** – For the purpose of these financial statements, cash equivalents include time deposits, certificate of deposit, and all highly liquid debt instruments with original maturities of three months or less.
- (7) **Net Position** – Net position presents the difference between assets and liabilities in the statement of net position. Net Position invested in capital assets is reduced by the outstanding balances of any borrowing, if any, used for the acquisition, construction or improvement of those assets. Net position is reported as restricted if and when there are legal limitations imposed on their use by Library legislation or external restrictions by creditors, grantors, laws or regulations of other governments.
- (8) **Capital Assets** – Land, buildings, collection, and other capital assets with useful lives of more than one year resulting from expenditures in the governmental funds are recorded at cost (or estimated historical cost) net of accumulated depreciation in the government-wide statement of net assets but are reported as expenditures in governmental fund financial statements. The Library maintains a capitalization threshold of \$500. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. The Library does not possess any infrastructure. The Library depreciates capital assets using the straight-line method of depreciation over the estimated useful life of the asset.
- (9) **Allowance for Uncollectible Accounts** – At June 30, 2016, management deems all accounts receivable collectible. Therefore, no allowance for uncollectible accounts is included in the financial statements.
- (10) **Long-term Obligations** – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.
- (11) **Pensions** – 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 (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. 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.

HENRY COUNTY PUBLIC LIBRARY
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(12) **Estimates** – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(13) **Use of Restricted Resources** – When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Library’s policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the Library’s policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications – committed and then assigned fund balances before unassigned fund balances.

NOTE C - CASH AND INVESTMENTS

At June 30, 2016, the carrying amount of the Library’s deposits (cash and cash equivalents) was \$1,234,097. Of the bank balance, \$572,311 is covered by federal depository insurance (FDIC) and the remaining is secured by pledged securities held by the pledging financial institution’s agent in the Library’s name as collateral for bank balances in excess of the FDIC insured amount. Cash deposited in bank accounts that is restricted for specific expenditures as specified by grant or other funding agreements is reported as restricted cash. The Library’s deposits consisted of demand deposits and certificates of deposit.

Kentucky Revised Statutes authorize districts to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies, deposits in national or state charter banks insured by federal agencies, repurchase agreements, and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies.

NOTE D - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 82,358	\$ -	\$ -	\$ 82,358
Buildings	262,383	-	-	262,383
Vehicles	50,386	-	-	50,386
Collection	424,092	53,783	(55,565)	422,310
Equipment and Furniture	<u>171,255</u>	<u>2,131</u>	<u>-</u>	<u>173,386</u>
Total Cost	990,474	55,914	(55,565)	990,823
Less:				
Accumulated Depreciation	(613,639)	(74,736)	<u>55,565</u>	(632,810)
Net Book Value	<u>\$ 376,835</u>	<u>\$ (18,822)</u>	<u>\$ -</u>	<u>\$ 358,013</u>

HENRY COUNTY PUBLIC LIBRARY
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE E – LIABILITY FOR COMPENSATED ABSENCES

Employees are allowed to accrue sick days. However, sick leave does not vest under the Library's policies and accordingly, employees can only utilize sick leave when sick. Since the employees' accumulating rights to receive compensation for future absences are contingent upon the absences being caused by future illnesses and such amounts cannot be reasonably estimated, a liability for unused sick leave is not recorded in the financial statements.

Employees are also allowed to accrue vacations hours, which are vested. Accordingly, the employee can be paid for unused vacation days upon termination.

A liability for accumulated vacation hours is accrued when incurred in the government-wide financial statements. The amount accrued in the government-wide financial statements is \$16,539 at June 30, 2016.

NOTE F – PROPERTY TAXES

The Library's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real, personal and motor vehicle property located in Henry County. Property taxes are collected by the Henry County Sheriff, the Henry County Clerk, and the Commonwealth of Kentucky and remitted to the Library. Taxes are due on November 1 and become delinquent by January 1 following the October 1 levy date.

NOTE G -- EMPLOYEES' RETIREMENT PLAN

General Information about the Pension Plan

Plan description. Employees of the Library are provided with pensions through the County Employee Retirement System (CERS)—a cost-sharing multiple-employer defined benefit pension plan. Per Kentucky Revised Statute 61.645, the Board of Trustees (the Board) of the Kentucky Retirement System (KRS) administers the CERS. KRS issues a publicly available financial report that can be obtained at www.kyret.gov.

Benefits provided. CERS provided retirement, disability, and death benefits. Retirement benefits are calculated based on a formula (final compensation times a benefit factor times years of service) and may be extended to beneficiaries of plan members under certain circumstances. Disability benefits are determined in a similar manner as retirement benefits, but vary based upon hire date, age and years of service. Death benefits vary based upon whether the employee was retired or working at the date of death and whether or not it was a duty-related death.

Effective July 1, 2009, and on July 1 of each year thereafter, the cost-of-living adjustment (COLA) is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effect date of the COLA, the increase shall be reduces on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. On July 1, 2013, the COLA was not granted.

**HENRY COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2016

NOTE G -- EMPLOYEES' RETIREMENT PLAN (CONTINUED)

Contributions. Kentucky Revised Statute Section 78.545(33) grants the authority to establish and amend the benefit terms to the Board of KRS. Employees are required to contribute 5% or 6% of their annual creditable compensation based upon the date they begin participating in the plan. The actuarially determined rates set by the Board for the year ended June 30, 2016 was 17.06%. Contributions to the pension plan from the Library were \$45,220 for the year ended June 30, 2016.

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

At June 30, 2016, the Library reported a liability of \$399,967 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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 was based on a projection of the Library's long-term share of the contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2015, the Library's proportion was 0.009303%.

For the year ended June 30, 2016, the Library recognized pension expense of \$49,076. At June 30, 2016, the Library reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Difference between expected and actual experience	\$ 3,324	\$ -
Changes of assumptions	40,332	-
Net difference between projected and actual earnings on pension plan investments	3,585	-
Changes in proportion and differences between Library contributions and proportionate share of contributions	10,232	-
Library contributions subsequent to the measurement date	<u>26,977</u>	<u>-</u>
	<u>\$ 84,450</u>	<u>\$ -</u>

**HENRY COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2016

NOTE G -- EMPLOYEES' RETIREMENT PLAN (CONTINUED)

The \$26,977 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ 20,261
2018	20,261
2019	9,739
2020	7,212
2021	-
	\$ 57,473

Actuarial assumptions. The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.0%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the June 30, 2015 valuations were based on the results of an actuarial experience study for the period July 1, 2008-June 30, 2013.

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

**HENRY COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2016

NOTE G -- EMPLOYEES' RETIREMENT PLAN (CONTINUED)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private equity	10%	8.50%
Cash	<u>2%</u>	-2.5%
Total	<u>100%</u>	

Discount rate. The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of 7.50%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Library's proportionate share of the net pension liability to changes in the discount rate. The following presents the Library's proportionate share of net pension liability calculated using the discount rate of 7.50%, as well as what the Library's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	<u>Decrease (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>Increase (8.50%)</u>
Library's proportionate share of The net pension liability	\$510,607	\$399,967	\$305,213

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued KRS financial report.

NOTE H - OTHER LONG-TERM OBLIGATIONS

The Library has the following long-term obligations outstanding as of June 30, 2016:

Accrued compensated absences	\$ <u>16,539</u>
Total long-term obligations	\$ <u>16,539</u>

**HENRY COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2016

NOTE I - RISK MANAGEMENT

The Library is exposed to various forms of losses associated with the risks of fire; personal liability, vehicular accidents; errors and omissions; torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. Each of these risk areas is covered through the purchase of commercial insurance. The Library has purchased certain policies that are retrospectively rated which include worker's compensation insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE J -- PRIOR PERIOD ADJUSTMENT

The Library has recorded an adjustment to the Beginning Net Position of \$10,678 at July 1, 2015. This adjustment accounts for the estimated net pension liability related to the insurance portion of the pension funding at June 30, 2015, and is being recorded in accordance with Government Account Standards Board Statement No. 68.

SUPPLEMENTAL INFORMATION

**HENRY COUNTY PUBLIC LIBRARY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
TO THE STATEMENT OF ACTIVITIES**

For The Year Ended June 30, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Property taxes	\$ 645,000	\$ 664,000	\$ 771,731	\$ 107,731
Governmental grants	15,000	15,000	15,618	618
Gifts and contributions	500	500	-	(500)
Book rentals and fines	4,550	4,500	3,997	(503)
Copier and fax income	6,500	6,500	7,415	915
Investment income	3,500	4,000	4,669	669
Miscellaneous income	7,500	10,500	9,488	(1,012)
TOTAL REVENUES	<u>682,550</u>	<u>705,000</u>	<u>812,918</u>	<u>107,918</u>
EXPENDITURES				
Personnel	421,500	449,800	398,721	(51,079)
Library materials	77,000	76,000	65,134	(10,866)
Bookmobile expense	7,000	7,000	1,516	(5,484)
Operating expenses	177,050	171,600	144,332	(27,268)
Capital outlay	-	-	2,131	2,131
Debt service - bond principal	-	-	-	-
Debt service - note principal	-	-	-	-
Debt service - bond interest	-	-	-	-
TOTAL EXPENDITURES	<u>682,550</u>	<u>704,400</u>	<u>611,834</u>	<u>(92,566)</u>
CHANGE IN FUND BALANCES	<u>-</u>	<u>600</u>	<u>201,084</u>	<u>200,484</u>

BUDGET TO GAAP RECONCILIATION:

A reconciliation of the cash basis actual amounts to the GAAP basis actual amounts in the fund statements follows:

	<u>General Fund</u>
Sources/revenues	
Actual amounts (budgetary basis)	\$ 812,918
Differences - budget to GAAP:	
The Library budgets for property taxes and other revenues only to the extent expected to be received, rather than on the modified accrual basis.	<u>1,080</u>
Total revenues as reported on the governmental fund statement of revenues, expenditures, and changes in fund balances.	<u>\$ 813,998</u>
Uses/expenditures:	
Actual amounts (budgetary basis)	\$ 611,834
Differences - budget to GAAP:	
The Library budgets for expenditures only to the extent expected to be paid, rather than on the modified accrual basis.	<u>(2,912)</u>
Total expenditures as reported on the governmental fund statement of revenues, expenditures, and changes in fund balance.	<u>\$ 608,922</u>

HENRY COUNTY PUBLIC LIBRARY

SCHEDULE OF THE LIBRARY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

County Employees Retirement System

	Last 10 Fiscal Years*									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Library's proportion of the net pension liability (asset)	0.009303%	0.008906%								
Library's proportionate share of the net pension liability (asset)	\$ 399,967	\$ 288,939								
Library's covered-employee payroll	\$ 217,041	\$ 217,806								
Library's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	184.28%	132.66%								
Plan fiduciary net position as a percentage of the total pension liability	59.97%	66.80%								

* The amounts presented for each fiscal year were determined as of one-year prior to the fiscal year end.

HENRY COUNTY PUBLIC LIBRARY

SCHEDULE OF LIBRARY CONTRIBUTIONS

County Employees Retirement System

Last 10 Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 26,977	\$ 27,673	\$ 26,821							
Contributions in relation to the contractually required contribution	<u>\$ (26,977)</u>	<u>\$ (27,673)</u>	<u>\$ (26,821)</u>							
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>							
Library's covered-employee payroll	\$ 217,209	\$ 217,041	\$ 217,806							
Contributions as a percentage of covered-employee payroll	12.42%	12.75%	12.31%							

GOVERNMENTAL AUDITING STANDARDS

**INDEPENDENT AUDITORS' 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***

DePRIE & ADKISSON, PSC

Certified Public Accountants

12730 Townepark Way, Suite 103
Louisville, Kentucky 40243

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 Directors
Henry County Public Library
Eminence, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Henry County Public Library as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Henry County Public Library, Kentucky's basic financial statements and have issued our report thereon dated September 21, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Henry County Public Library's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Henry County Public Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Henry 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors
Henry County Public Library
Page 2

Compliance and Other Matters

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

Purpose of this Report

This 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 communications is not suitable for any other purpose.

DePrie & Adkisson, PSC

Certified Public Accountants

September 21, 2016