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FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS



Audited Financial Statements
For the Year Ended September 30, 2017

Fortenberry & Ballard, PC
Certified Public Accountants

Madison County Library System
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FINANCIAL AUDIT REPORT

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL
STATEMENTS AND SUPPLEMENTARY INFORMATION

Board of Trustees
Madison County Library System

Report on the Financial Statements

We have audited the accompanying financial statements of the Madison County Library System, a component unit of Madison County, Mississippi, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Madison County Library System'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.

1929 SPILLWAY ROAD, SUITE B
BRANDON, MISSISSIPPI 39047
TELEPHONE 601-992-5292 FAX 601-992-2033

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Madison County Library System, as of September 30, 2017 and the respective changes in financial position, and, where applicable, cash flows 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 and the Schedule of Library's Proportionate Share of the Net Pension Liability and the Schedule of Library's Contributions on pages 7 to 12 and 30 to 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 April 20, 2018, on our consideration of the Madison County Library System 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 Library System's internal control over financial reporting and compliance.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
April 20, 2018

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

Madison County Library System
Management's Discussion and Analysis
For the Year Ended September 30, 2017

The following discussion and analysis of Madison County Library System's financial performance provides an overview of the Library's financial activities for the year ended September 30, 2017. The intent of this discussion and analysis is to look at the Library's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the Library's financial performance.

FINANCIAL HIGHLIGHTS

- Total net position for 2017 decreased \$109,338, which represents a 13% decrease from fiscal year 2016. Total net position for 2016 decreased \$141,503, which represents a 20% decrease from fiscal year 2015.
- Operating revenues amounted to \$2,056,333 and \$1,997,019, or 87% and 91% of all revenues for fiscal years 2017 and 2016, respectively. Non-operating revenues accounted for \$309,391, or 13% of total revenues for 2017, and \$185,626, or 9% of total revenues for 2016.
- The Library had \$2,475,062 and \$2,324,148 in expenses for fiscal years 2017 and 2016; Operating expenses of \$2,326,631 accounted for 94% of total expenses in fiscal year 2017 and operating expenses of \$2,161,062 accounted for 93% of total expenses in the previous fiscal year. Non-operating expenses for fiscal year 2017 and 2016 were as follows: \$148,431 and \$163,086, respectively.
- Capital assets, net of accumulated depreciation, increased by \$84,833 for 2017 and decreased by \$5,838 for 2016. The increase for 2017 was due primarily to the purchase of a Honda Pilot vehicle, a few pieces of furniture, a copier and a few printers.
- Net pension liability decreased 12% to \$2,668,055 in 2017 compared to \$3,028,944 in 2016. Deferred outflows related to pension accounted for \$447,688 in 2017 and \$691,206 in the previous year. Deferred inflows related to pensions amounted to \$354,016 in the current year and \$27,630 for the previous year.

Madison County Library System
Management's Discussion and Analysis
For the Year Ended September 30, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the Library's basic financial statements, which include the basic financial statements and the notes to the financial statements. This report also contains required supplementary information.

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities provide the reader with a broad overview of the Library's finances. These statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position presents information on all the Library's nonfiduciary assets, deferred outflows, liabilities, and deferred inflows, with the differences between them reported as "net position." Over time, increases or decreases in the Library's net position may serve as a useful indicator of whether its financial position is improving or deteriorating.

The Statement of Activities presents information showing how the Library's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents a budgetary comparison schedule, the Schedule of the Library's Proportionate Share of the Net Pension Liability, and Schedule of Library Contributions as required supplementary information. The Library adopts an annual operating budget. A budgetary comparison schedule has been provided for the General Fund as required by the Governmental Accounting Standards Board.

Net Position

Net Position may serve over time as a useful indicator of the Library's financial position. Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$970,712 as of September 30, 2017.

Madison County Library System
Management's Discussion and Analysis
For the Year Ended September 30, 2017

The Library's financial position is a product of several financial transactions including the net result of activities, the acquisition and disposal of capital assets and the depreciation of capital assets.

Table 1 presents a summary of the Library's net position at September 30, 2017 and September 30, 2016.

Table 1
Condensed Statement of Net Position

	September 30, 2017	September 30, 2016	Percentage Change
Current assets	\$ 410,964	371,742	11%
Restricted assets	638,582	559,000	14%
Capital assets, net	680,235	595,402	14%
Total assets	1,729,781	1,526,144	13%
Deferred outflows of resources	447,688	691,206	(35)%
Current liabilities	126,110	22,150	469%
Net pension liability	2,668,055	3,028,944	(12)%
Total liabilities	2,794,165	3,051,094	(8)%
Deferred inflows of resources	354,016	27,630	1181%
Net position:			
Net investment in capital assets	680,235	595,402	14%
Restricted	638,582	559,000	14%
Unrestricted	(2,289,529)	(2,015,776)	(14)%
Total net position	\$ (970,712)	(861,374)	13%

Madison County Library System
Management's Discussion and Analysis
For the Year Ended September 30, 2017

Additional information on unrestricted net position:

In connection with the application of standards on accounting and financial reporting for pensions, management presents the following additional information:

Total unrestricted net position (deficit)	\$ (2,289,529)
Less unrestricted deficit in net position resulting from recognition of the net pension liability, including the deferred outflows and deferred inflows related to pensions	<u>2,574,383</u>
Unrestricted net position, exclusive of the net pension liability effect	<u>\$ 284,854</u>

The following are significant current year transactions that have had an impact on the Statement of Net Position:

- Increase in net capital assets in the amount of \$84,833.
- The increase in current liabilities was mainly due to an accrued legal expense item.

Changes in net position

The Library's total revenues for the fiscal years ended September 30, 2017 and September 30, 2016 were \$2,365,724 and \$2,182,745, respectively. The total cost of all programs and services was \$2,475,062 for 2017 and \$2,324,148 for 2016.

Table 2 presents a summary of the changes in net position for the fiscal years ended September 30, 2017 and September 30, 2016.

Madison County Library System
Management's Discussion and Analysis
For the Year Ended September 30, 2017

Table 2
Changes in Net Position

	<u>Year Ended September 30, 2017</u>	<u>Year Ended September 30, 2016</u>	<u>Percentage Change</u>
Revenues:			
Operating revenues	\$ 2,056,333	1,997,019	3%
Non-operating revenues	<u>309,391</u>	<u>185,626</u>	67%
Total revenues	<u>2,365,724</u>	<u>2,182,645</u>	8%
Expenses:			
Operating expenses	2,326,631	2,161,062	8%
Non-operating expenses	<u>148,431</u>	<u>163,086</u>	(9)%
Total expenses	<u>2,475,062</u>	<u>2,324,148</u>	6%
Increase (Decrease) in net position	<u>(109,338)</u>	<u>(141,503)</u>	(23)%
Net Position, Beginning	<u>(861,374)</u>	<u>(719,871)</u>	20%
Net Position, June 30	<u>\$ (970,712)</u>	<u>(861,374)</u>	13%

BUDGETARY HIGHLIGHTS

During the year, the Library revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the Madison County Library System.

A schedule showing the original and final budget amounts compared to the Library's actual financial activity is provided in this report as required supplementary information.

Madison County Library System
Management's Discussion and Analysis
For the Year Ended September 30, 2017

CAPITAL ASSETS

Capital Assets. As of September 30, 2017, the Library's total capital assets were \$5,109,299, including reading materials, furniture and fixtures, office equipment, computer equipment, and vehicles. This amount represents an increase of \$301,662 from 2016. Total accumulated depreciation as of September 30, 2017, was \$4,429,064, and total depreciation expense for the year was \$245,493, resulting in total net capital assets of \$680,235.

Table 4
Capital Assets, Net Accumulated Depreciation

	<u>September 30, 2017</u>	<u>September 30, 2016</u>	<u>Percentage Change</u>
Reading materials	\$ 560,204	485,244	15%
Furniture and fixtures	22,892	19,319	18%
Office equipment	16,773	3,951	325%
Computer equipment	45,259	72,800	(38)%
Vehicles	35,107	14,088	149%
Total	<u>\$ 680,235</u>	<u>595,402</u>	<u>14%</u>

Additional information on the Library's capital assets can be found in Note 3 included in this report.

CONTACTING THE LIBRARY'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the office of the Madison County Library System, 102 Priestley Street, Canton, MS 39046.

FINANCIAL STATEMENTS

MADISON COUNTY LIBRARY SYSTEM
(a component unit of Madison County, Mississippi)

Statement of Net Position
September 30, 2017

Assets

Current assets:

Cash and cash equivalents	\$	345,141
Restricted cash		638,582
Accounts receivable		65,823
Total current assets		<u>1,049,546</u>

Non-current assets:

Capital assets, net of accumulated depreciation:

Reading Materials		560,204
Furniture and fixtures		22,892
Office equipment		16,773
Computer equipment		45,259
Vehicles		35,107
Total non-current assets		<u>680,235</u>

Total Assets		<u>1,729,781</u>
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Deferred Outflows of Resources

Pension related		447,688
Total Deferred Outflows of Resources		<u>447,688</u>

Liabilities

Current liabilities:

Accounts payable		68,099
Accrued expenses		58,011
Total current liabilities		<u>126,110</u>

Non-current liabilities:

Net pension liability		2,668,055
Total non-current liabilities		<u>2,668,055</u>

Total Liabilities		<u>2,794,165</u>
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Deferred Inflows of Resources

Pension related		354,016
Total Deferred Inflows of Resources		<u>354,016</u>

Net Position

Net investment in capital assets		680,235
Restricted:		
Expendable:		
Unemployment		15,000
Other		623,582
Unrestricted		(2,289,529)
Total Net Position	\$	<u>(970,712)</u>

MADISON COUNTY LIBRARY SYSTEM
(a component unit of Madison County, Mississippi)

Statement of Activities
For the Year Ended September 30, 2017

Operating Revenues:	
Auditorium Use Fees	\$ 1,625
City of Canton	100,959
City of Madison	100,000
City of Ridgeland	107,500
Town of Flora	1,200
Copies	38,051
Faxes	20,680
Madison County	1,572,067
MLC - Personnel Grant	114,251
Total Operating Revenues	<u><u>2,056,333</u></u>
Operating Expenses:	
Salaries - payroll	1,124,095
Benefits	391,356
Salaries - payroll tax	83,668
Repairs and maintenance	24,462
Automation	10,512
Postage and shipping	3,709
Office supplies	30,181
Janitorial supplies	4,085
Professional fees	50,368
Insurance	30,316
Office equipment	1,189
Automobile	3,223
Staff development and training	3,482
Telephone	8,521
Utilities	70,065
Library programs	21,521
SIRSI maintenance	40,074
Contractual services	4,672
Dues	2,366
Telecommunications	159,749
Travel	13,524
Depreciation	245,493
Total Operating Expenses	<u><u>2,326,631</u></u>
Operating Income (Loss)	<u><u>(270,298)</u></u>
Non-Operating Income (Expenses):	
E-Rate Reimbursement	146,401
Donations	3,188
Friends of the Library Donations	6,500
Fines	31,649
Grants	117,391
Lost Books	1,554
Miscellaneous	1,567
Interest	1,141
Donations	(7,260)
LSTA Grant	(1,044)
Health insurance	(108,580)
Life insurance	(1,807)
MLC Grant	(3,500)
Miscellaneous	(4,224)
Special projects	(19,296)
Unemployment reimbursement	(156)
Staff fund	(2,396)
Loss on disposal of assets	(168)
Total Non-Operating Income (Expenses)	<u><u>160,960</u></u>
Change in Net Position	<u><u>(109,338)</u></u>
Net Position, Beginning	<u><u>(861,374)</u></u>
Net Position, Ending	<u><u>(970,712)</u></u>

MADISON COUNTY LIBRARY SYSTEM
(a component unit of Madison County, Mississippi)

Statement of Cash Flows
For the Year Ended September 30, 2017

Cash Flows from Operating Activities

Receipts from customers	\$ (5,467)
Receipts from other governments	1,881,726
Other operating cash receipts	114,251
Payments to employees	(1,353,725)
Payments to suppliers of goods or services	(287,702)
Other operating cash payments	(126,736)
Net Cash Provided (Used) by Operating Activities	<u>222,347</u>

Cash Flows from Non-Capital Related Financing Activities

Donations	2,428
Grants	259,248
Other	(101,690)
Net Cash Provided (Used) by Non-Capital Related Financing Activities	<u>159,986</u>

Cash Flows from Capital Related Financing Activities

Acquisition of capital assets	(330,493)
Total Cash Flows from Capital Related Financing Activities	<u>(330,493)</u>

Cash Flows from Investing Activities

Interest earned	1,141
Total Cash Flows from Investing Activities	<u>1,141</u>

Net Increase (Decrease) in Cash and Cash Equivalents 52,981

Cash and Cash Equivalents, Beginning 930,742
Cash and Cash Equivalents, Ending \$ 983,723

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities

Operating Income (Loss)	\$ <u>(270,298)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities	
Depreciation	245,493
Change in assets, deferred outflows, liabilities and deferred inflows:	
Decrease (increase) in receivables	(65,823)
Decrease (increase) in deferred outflows	243,518
Increase (decrease) in payables	67,581
Increase (decrease) in accrued expenses	36,379
Increase (decrease) in net pension liability	(360,889)
Increase (decrease) in deferred inflows	326,386
Net Cash Provided by Operating Activities	<u>\$ 222,347</u>

Madison County Library System

**Notes to the Financial Statements
For the Year Ended September 30, 2017**

Madison County Library System

Notes to the Financial Statements
For the Year Ended September 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Madison County Library System have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the Library's accounting policies are described below.

A. Reporting Entity

The Library located in central Mississippi near the state capital, Jackson, is one of the forty-seven public library systems in the state of Mississippi. The Library provides library resources and services necessary to meet the informational, recreational and cultural needs of the public.

Madison County Library System, a political subdivision, is a joint city-county public library system. The Library is governed by an administrative Board of Library Trustees, consisting of nine members: one from each of the four cities in Madison County: Canton, Camden, Flora and Ridgeland, and one appointee from each of the five county supervisors' districts.

B. Basis of Accounting

The Library's basic financial statements consists of the Statement of Net Position, the Statement of Activities and the Statement of Cash Flows. These statements provide a more detailed level of financial information.

The Statement of Net Position presents the financial condition of the Library at year end. The Statement of Activities presents a comparison between operating revenues, non-operating revenues and operating expenses and non-operating expenses for the Library's activities.

C. Measurement Focus and Basis of Accounting

In the Statement of Net Position and Statement of Activities, activities are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

D. Cash and Cash Equivalentents

Cash and cash equivalentents include cash on hand, demand deposits, all certificates of

Madison County Library System

Notes to the Financial Statements
For the Year Ended September 30, 2017

deposit and cash equivalents with maturities of 12 months or less. Cash and cash equivalents are valued at cost.

E. Capital Assets

Capital assets, which include vehicles, furniture and furnishings and library materials are capitalized at their estimated depreciable values. Library materials over 5 years have been deemed to be fully depreciated and neither the cost nor the accumulated depreciation is included. Depreciation is calculated on a straight-line basis for vehicles and equipment and furnishings over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Vehicles	5
Equipment and furnishings	5
Library materials	5

F. Equity Classification

Equity is classified as net position and displayed in three components:

1. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of any related debt obligations attributable to the acquisition, construction or improvement of those assets.
2. Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, management applies unrestricted net position first, unless a determination is made to use restricted net position. The Library's policy concerning which to apply first varies with the intended use and legal requirements. Management typically makes this decision on a transactional basis at the incurrence of the expenditure.

NOTE 2 - CASH AND CASH EQUIVALENTS

The collateral pledged for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds

Madison County Library System

Notes to the Financial Statements For the Year Ended September 30, 2017

are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

At September 30, 2017 the carrying amount of the Library's deposits with financial institutions reported was \$983,723 and the bank balance was \$949,225. Of the bank balances, \$250,000 was covered by federal depository insurance and the remainder of \$699,225 was collateralized with securities by the pledging financial institution's agent in the Library's name.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the Library will not be able to recover deposits or collateral securities that are in the possession of an outside party. The Library does not have a deposit policy for custodial credit risk. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the Library. As of September 30, 2017, none of the Library's bank balance of \$949,225 was exposed to custodial credit risk.

NOTE 3 - CAPITAL ASSETS

Capital assets consist primarily of library materials, furniture, fixtures, equipment and vehicles that are being depreciated on the straight-line basis over estimated useful lives of five years. The changes in the capital assets accounts were as follows:

Madison County Library System

Notes to the Financial Statements
For the Year Ended September 30, 2017

	Beginning Balance	Additions	Deletions	Ending Balance
Depreciable capital assets:				
Reading materials	\$ 3,495,649	269,619		3,765,268
Furniture and fixtures	744,048	12,119		756,167
Office equipment	212,056	15,501	4,769	222,788
Computer equipment	302,535	4,683	24,063	283,155
Vehicles	53,349	28,572		81,921
Total depreciable capital assets	<u>4,807,637</u>	<u>330,494</u>	<u>28,832</u>	<u>5,109,299</u>
Less accumulated depreciation for:				
Reading materials	3,010,405	194,659		3,205,064
Furniture and fixtures	724,729	8,546		733,275
Office equipment	208,105	2,679	4,769	206,015
Computer equipment	229,735	32,056	23,895	237,896
Vehicles	39,261	7,553		46,814
Total accumulated depreciation	<u>4,212,235</u>	<u>245,493</u>	<u>28,664</u>	<u>4,429,064</u>
Total depreciable assets, net	<u>595,402</u>	<u>85,001</u>	<u>168</u>	<u>680,235</u>
Total capital assets, net	<u>\$ 595,402</u>	<u>85,001</u>	<u>168</u>	<u>680,235</u>

NOTE 4 - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan Description. Madison County Library System contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, as amended) and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

Benefits Provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring.

Madison County Library System

Notes to the Financial Statements
For the Year Ended September 30, 2017

Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of credited service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions. At September 30, 2017, PERS members were required to contribute 9% of their annual covered salary, and the Library is required to contribute at an actuarially determined rate. The employer's rate at September 30, 2017 was 15.75% percent of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The Library's contributions (employer share only) to PERS for the years ending September 30, 2017, 2016, and 2015 were \$162,371, \$169,782, and \$160,208, respectively, equal to the required contributions.

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

At September 30, 2017, the Library reported a liability of \$2,668,055 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Library's proportion of the net pension liability was based on a projection of the Library's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. The Library's proportionate share used to calculate the September 30, 2017 net pension liability was 0.016050 percent, which was based on a measurement date of June 30, 2017. This was a decrease of .0000907 percent from its proportion share used to calculate the September 30, 2016 net pension liability, which was based on a measurement date of June 30, 2016.

Madison County Library System

Notes to the Financial Statements
For the Year Ended September 30, 2017

For the year ended September 30, 2017, the Library recognized pension expense of \$371,386. At September 30, 2017, the Library reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 88,276	19,468
Net difference between projected and actual earnings on pension plan investments	178,847	
Change of assumptions	217,162	8,048
Changes in proportion and differences between Library contributions and proportionate share of contributions	(77,347)	326,500
Library contributions subsequent to the measurement date	40,750	
Total	\$ 447,688	354,016

\$40,750 reported as deferred outflows of resources related to pensions resulting from Library contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended September 30, 2018. 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 ending September 30:	
2017	\$ 101,608
2018	15,121
2019	(12,270)
2020	(51,537)
Total	\$ 52,922

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

Madison County Library System

Notes to the Financial Statements
For the Year Ended September 30, 2017

Inflation	3.0 percent
Salary increases	3.75 - 18.50 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022, with rates set forward one year for males with adjustments.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2016. The experience report is dated April 18, 2017.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are 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 by adding expected inflation.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Broad	27%	4.60%
International Equity	18%	4.50%
Emerging Markets Equity	4%	4.75%
Fixed Income	18%	0.75%
Global	12%	4.75%
Emerging Debt	2%	2.25%
Real Assets	10%	3.50%
Private Equity	8%	5.10%
Cash	1%	0.00%
Total	100%	

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that

Madison County Library System

Notes to the Financial Statements
 For the Year Ended September 30, 2017

plan member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be made at the current employer contribution rate (15.75%). Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments 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 the net pension liability calculated using the discount rate of 7.75 percent, 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 (6.75 percent) or 1- percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Library’s proportionate share of the net pension liability	\$ 3,449,332	\$ 2,668,055	\$ 1,977,914

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

NOTE 5 - RELATED ENTITIES

The Madison County Library System has related entities known as the Friends of the Library. These are non-profit organizations which raise funds to assist in various expenses of the Library. A condensed unaudited combined statement of the Friends’ organizations is as follows:

Madison County Library System

Notes to the Financial Statements
For the Year Ended September 30, 2017

Condensed Statement of Net Position

	Camden	Canton	Flora	Ridgeland	Madison	Total
Assets						
Cash	\$ 488	10,553	7,315	31,388	26,833	76,577
Investments				30,477		
Total Assets	488	10,553	7,315	61,865	26,833	76,577
Net Position	\$ 488	10,553	7,315	61,865	26,833	107,054

Condensed Statement of Activities

	Camden	Canton	Flora	Ridgeland	Madison	Total
Revenues	\$		1,442	5,839	12,144	19,425
Expenses		102	247	5,267	10,359	15,975
Change in net position	(102)	0	1,195	572	1,785	3,450
Net Position, Beginning	590	10,553	6,120	61,293	25,048	103,604
Net Position, Ending	\$ 488	10,553	7,315	61,865	26,833	107,054

NOTE 6 - GRANT AWARDS

The following is a summary, by subgrant number, of all funds received from the Mississippi Library Commission for the year ended September 30, 2017.

Funding Source: State

SH17-360-26-0	Health Insurance Grant	\$ 89,712
SH18-360-26-0	Health Insurance Grant	18,512
SL17-361-26-0	Life Insurance Grant	1,502
SL18-361-26-0	Life Insurance Grant	304
SP17-362-26-0	Personnel Grant	89,247
SP18-362-26-0	Personnel Grant	25,004

Madison County Library System

Notes to the Financial Statements
For the Year Ended September 30, 2017

Funding Source: Federal

FIT14-000-26-0	ILL Transport Cooperative	3,161
FPD16-245-26-0	Professional Development Grant	3,500
FSR17-247-26-0	Services/Resources Sharing Grant	<u>700</u>
Total		\$ <u><u>231,642</u></u>

NOTE 7 - USE OF ESTIMATES

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

NOTE 8 - ECONOMIC DEPENDENCE

The Library receives a substantial amount of its support from state and local governments. A significant reduction in this level of support, should it occur, may have a material effect on the Library's programs and activities.

NOTE 9 - RISK MANAGEMENT

The Library is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. The Library carries commercial insurance for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

NOTE 10 - CONTINGENCIES

Federal Grants - The Library has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from the grantor audit may become a liability of the Library.

Litigation - The Library is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate the outcome or liability, if any, of the Library with respect to the various proceedings.

Madison County Library System

Notes to the Financial Statements
For the Year Ended September 30, 2017

NOTE 11 - SUBSEQUENT EVENTS

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the Madison County Library System evaluated the activity of the Library through the date the financial statements were available to be issued, and determined that the following subsequent event has occurred requiring disclosure in the notes to the financial statements.

The Library had to accrue a legal expense in the amount of \$20,000. Of this amount, the Library expects insurance coverage reimbursement in the amount of \$10,000.

REQUIRED SUPPLEMENTARY INFORMATION

MADISON COUNTY LIBRARY SYSTEM

Required Supplementary Information

**Statement of Actual and Budgeted Revenues and Expenses
For the Year Ended September 30, 2017**

	Actual	Budgeted	Variance Favorable (Unfavorable)
Revenues:			
Auditorium use fees	\$ 1,625	900	725
City of Canton	100,959	92,000	8,959
City of Madison	100,000	100,000	-
City of Ridgeland	107,500	107,500	-
Copy and fax	58,731	45,000	13,731
Madison County	1,572,067	1,554,127	17,940
Personnel grant	114,251	114,251	-
Town of Flora	1,200	1,200	-
Rollover from prior year			-
Total Revenues	2,056,333	2,014,978	41,355
Expenses:			
Salaries - payroll	1,124,095	1,113,642	(10,453)
Benefits	391,356	252,164	(139,192)
Salaries - payroll tax	83,668		(83,668)
Repairs and maintenance	24,462	20,000	(4,462)
Automation	10,512	15,000	4,488
Postage and shipping	3,709	5,000	1,291
Office supplies	30,181	31,000	819
Janitorial supplies	4,085	6,000	1,915
Professional fees	50,368	9,000	(41,368)
Insurance	30,316	30,000	(316)
Office equipment	1,189	32,000	30,811
Automobile	3,223	31,000	27,777
Staff development and training	3,482	15,000	11,518
Telephone	8,521	8,000	(521)
Utilities	70,065	80,000	9,935
Library programs	21,521	280,000	258,479
SIRSI maintenance	40,074	42,000	1,926
Contractual services	4,672	4,672	-
Dues	2,366	2,000	(366)
Summer reading donation	2,348	18,000	15,652
Telecommunications	159,749	15,500	(144,249)
Travel	13,524	5,000	(8,524)
Donations	4,912		(4,912)
LSTA Grant	1,044		(1,044)
Health insurance	108,580		(108,580)
Life insurance	1,807		(1,807)
MLC Grant	3,500		(3,500)
Miscellaneous	4,224		(4,224)
Special projects	19,296		(19,296)
Staff fund	2,396		(2,396)
Total Expenses	2,229,245	2,014,978	(214,267)
Net Change in Net Position	(172,912)	-	172,912

Madison County Library System
Schedule of the Library's Proportionate Share of the Net Pension Liability
PERS
Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Library's proportion of the net pension liability (asset)	\$ 2,668,055	3,028,943	2,489,207	1,994,180
Library's proportionate share of the net pension liability (asset)	0.016050%	0.016957%	0.016103%	0.016429%
Library's covered - employee payroll	1,029,606	1,084,794	1,006,025	1,004,330
Library's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	259.13%	279.22%	247.43%	198.56%
Plan fiduciary net position as a percentage of the total pension liability	61.49%	57.47%	61.70%	67.21%

The notes to the required supplementary information are an integral part of this schedule.

* The amounts presented for each fiscal year were determined as of the measurement date of 6/30 of the fiscal year presented.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 15, and, until a full 10-year trend is compiled, the Library has only presented information for the years in which information is available.

Madison County Library System
Schedule of the Library's Contributions
PERS
Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 162,371	169,782	160,208	158,889
Contributions in relation to the contractually required contribution	162,371	169,782	160,208	158,889
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Library's covered - employee payroll	1,030,927	1,077,981	1,017,194	1,008,819
Contributions as a percentage of covered - employee payroll	15.75%	15.75%	15.75%	15.75%

The notes to the required supplementary information are an integral part of this schedule.

*The amounts presented for each fiscal year were determined as of the measurement date of 6/30 of the fiscal year presented.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FY 15.

Madison County Library System

Notes to the Supplementary Information
For the Year Ended September 30, 2017

Budgetary Comparison Schedule

1) **Basis of Presentation**

The Budgetary Comparison Schedule presents the original legally adopted budget, the final legally adopted budget, the actual data on the GAAP basis, variance between the original budget and the final budget, and variances between the final budget and the actual data.

2) **Budget Amendments and Revisions**

The budget is adopted by the Library and filed with the taxing authority. Amendments can be made on the approval of the Library board. A budgetary comparison is presented for the General Fund consistent with accounting principles generally accepted in the United States of America.

Pension Schedules

(1) **Change of Benefit Provisions**

2016:

Effective July 1, 2016, the interest rate on employee contributions shall be calculated based on the money market rate as published by the Wall Street Journal on December 31 of each preceding year with a minimum rate of one percent and a maximum rate of five percent.

(2) **Change of Assumptions**

2015:

The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015.

The expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015.

Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.

Madison County Library System

Notes to the Supplementary Information For the Year Ended September 30, 2017

Assumed rates of salary increases were adjusted to more closely reflect actual and anticipated experience.

The price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

2016:

The assumed rate of interest credited to employee contributions was changed from 3.5% to 2.00%.

2017:

The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022. Small adjustments were also made to the Mortality Table for disabled lives.

The Wage inflation assumption was reduced from 3.75% to 3.25%.

Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.

The percentage of active member disabilities assumed to be in the line of duty was increased from 6% to 7%.

REPORT ON INTERNAL CONTROL AND COMPLIANCE

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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*

Board of Trustees
Madison County Library System

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 Madison County Library System, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Madison County Library System's basic financial statements, and have issued our report thereon dated April 20, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 were not identified. 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.

1929 SPILLWAY ROAD, SUITE B
BRANDON, MISSISSIPPI 39047
TELEPHONE 601-992-5292 FAX 601-992-2033

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Madison County Library System'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 an instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as Finding 2017-001.

Library's Response to the Finding

The Library's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The 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.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
April 20, 2018

Certified Public Accountants

SCHEDULE OF FINDINGS AND RESPONSES

Madison County Library System
Schedule of Findings and Responses
For the Year Ended September 30, 2017

Section I: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued: Unmodified.
2. Internal control over financial reporting:
 - a. Material weakness(es) identified? No.
 - b. Significant deficiency(ies) identified? None reported.
3. Noncompliance material to financial statements noted? Yes.

Section II: Financial Statements Findings

The results of our tests disclosed the following finding related to the financial statements that is required to be reported by *Government Auditing Standards*

Finding 2017-001 - Noncompliance

Criteria:

Under the re-employment provisions of Section 25-11-127, Miss. Code of 1972, as amended, PERS Form 4B must be filed in the PERS office within five (5) days from the date of re-employment.

Condition:

During the testing of retired personnel, it was noted that three re-hired employees' forms were not filed with the PERS office within five (5) days of re-employment of a PERS service retiree.

Cause:

Unknown.

Effect:

It could result in employees being paid in excess of the amount allowed.

Recommendation:

PERS Form 4B must be properly completed and filed within five (5) days from the date of re-employment and within (5) days from the termination of such re-employment.

Response:

We agree with this finding. The hire dates for the three PERS re-hired employees noted in this finding were 11/8/2010, 2/3/2014 and 4/16/2014 when all forms were being routed to new employees in their branches via the library courier. This took time and caused delays in filing forms with the PERS office. Procedures adopted in September 2015 have helped

to alleviate this problem. All new hires now report to the Administrative Offices on their first day of employment. They meet with the Administrative Assistant and complete their paperwork before they ever report to work at their library branch. Since the completed form is already in our office, we are able to file forms with PERS within five (5) days of re-employment. PLEASE NOTE: The Madison County Library System currently employs only two (2) PERS Retirees. We do not anticipate hiring any new PERS Retirees in the near future.