

**AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION**

TRAILS REGIONAL LIBRARY

JUNE 30, 2018

Trails Regional Library

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June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Trails Regional Library
Warrensburg, Missouri

We have audited the accompanying modified cash basis financial statements of the governmental activities, aggregate discretely presented component units and each major fund of Trails Regional Library as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note A; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards 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. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*.

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 opinions.

Basis for Qualified Opinion

The pension plan disclosures in Note D are based on information for the prior plan year. The required information for the year ended June 30, 2018 is not yet available from the Missouri Local Government Employees Retirement System (LAGERS).

Qualified Opinions

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph preceding this section, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, aggregate discretely presented component units and each major fund of Trails Regional Library as of June 30, 2018 and the respective changes in modified cash basis financial position thereof for the year then ended in accordance with the modified cash basis of accounting described in Note A.

Basis of Accounting

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to that matter.

Disclaimer of Opinion Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library's basic financial statements. The pension schedules on pages 21 through 23, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Other Financial Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library's basic financial statements. The budgetary comparison schedule for the General Fund and the combining component unit schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule and combining component unit schedules are fairly stated in all material respects in relation to the basic financial statements as a whole on the basis of accounting described in Note A.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated September 12, 2018 on our consideration of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Library's internal control over financial reporting and compliance.

Gillum and Gillum CPA LLC

September 12, 2018

Trails Regional Library

STATEMENT OF NET POSITION - MODIFIED CASH BASIS

June 30, 2018

	<u>Primary Governmental</u>	
	<u>Governmental Activities</u>	<u>Component Units</u>
ASSETS		
Cash and investments--Note B	\$ 1,846,613	\$ 104,757
TOTAL ASSETS	<u>1,846,613</u>	<u>104,757</u>
 COMMITMENTS AND CONTINGENCIES		
--NOTES D, E and F		
 NET POSITION		
Restricted--Note G	247,711	41,331
Unrestricted	<u>1,598,902</u>	<u>63,426</u>
TOTAL NET POSITION	<u>\$ 1,846,613</u>	<u>\$ 104,757</u>

See notes to financial statements

Trails Regional Library

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

Year Ended June 30, 2018

	<u>Net (Expenses), Revenues and Changes in Net Position</u>				
	<u>Program Revenues</u>			<u>Primary Government</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Component Units</u>
GOVERNMENTAL ACTIVITIES					
Library operations	\$ 2,599,723	\$ 23,264	\$ 167,519	\$ (2,408,940)	
Facility acquisition and renovation	453,217	-	-	(453,217)	
Debt service					
Principal retirement	100,470	-	-	(100,470)	
Interest, net of rebate	31,429	-	-	(31,429)	
	<u>\$ 3,184,839</u>	<u>\$ 23,264</u>	<u>\$ 167,519</u>	<u>(2,994,056)</u>	
COMPONENT UNITS					
Library Foundation	\$ 10,309	\$ -	\$ 10,889		\$ 580
Friends of the Library	6,797	-	11,930		5,133
	<u>\$ 17,106</u>	<u>\$ -</u>	<u>\$ 22,819</u>		<u>5,713</u>
GENERAL REVENUES					
Property taxes levied for:					
General purposes				2,840,542	
Athletes and entertainers tax				14,370	
Unrestricted state aid				30,960	
Earnings on investments				1,830	992
				<u>2,887,702</u>	<u>992</u>
				CHANGE IN NET POSITION	6,705
				(106,354)	
Net position, beginning of year				<u>1,952,967</u>	<u>98,052</u>
				NET POSITION, END OF YEAR	\$ 104,757
				<u>\$ 1,846,613</u>	<u>\$ 104,757</u>

See notes to financial statements

Trails Regional Library

**BALANCE SHEET ARISING FROM MODIFIED CASH BASIS TRANSACTIONS
- GOVERNMENTAL FUNDS**

June 30, 2018

	<u>Major Funds</u>		
	<u>General Fund</u>	<u>Designated Gifts Fund</u>	<u>Total</u>
ASSETS			
Cash and investments--Note B	\$ 1,476,504	\$ 370,109	\$ 1,846,613
TOTAL ASSETS	<u>\$ 1,476,504</u>	<u>\$ 370,109</u>	<u>\$ 1,846,613</u>
 FUND BALANCES-NOTE G			
Restricted	\$ -	\$ 247,711	\$ 247,711
Committed	-	122,398	122,398
Assigned	123,599	-	123,599
Unassigned	<u>1,352,905</u>	<u>-</u>	<u>1,352,905</u>
TOTAL FUND BALANCES	<u>\$ 1,476,504</u>	<u>\$ 370,109</u>	<u>\$ 1,846,613</u>

RECONCILIATION TO THE STATEMENT OF NET POSITION

There are no differences between total fund balances as presented in this statement and net position presented in the statement of net position.

See notes to financial statements

Trails Regional Library

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ARISING FROM MODIFIED CASH BASIS TRANSACTIONS
- GOVERNMENTAL FUNDS**

Year Ended June 30, 2018

	<u>Major Funds</u>		
	<u>General Fund</u>	<u>Designated Gifts Fund</u>	<u>Total</u>
REVENUES			
Property taxes--Note C	\$ 2,840,542	\$ -	\$ 2,840,542
State aid and grants	46,054	-	46,054
Charges for services	23,264	-	23,264
Donations	16,287	131,996	148,283
Interest	1,650	180	1,830
Other	18,512	-	18,512
	<u>2,946,309</u>	<u>132,176</u>	<u>3,078,485</u>
EXPENDITURES			
Salaries and benefits	1,894,166	-	1,894,166
Operations	175,869	-	175,869
Collections and services	356,363	-	356,363
Facilities and technology	173,325	-	173,325
Capital outlay	453,217	-	453,217
Debt service			
Principal retirement	100,470	-	100,470
Interest, net of rebate	31,429	-	31,429
	<u>3,184,839</u>	<u>-</u>	<u>3,184,839</u>
REVENUES OVER (UNDER) EXPENDITURES	(238,530)	132,176	(106,354)
OTHER FINANCING SOURCES (USES)			
Transfers--Note H	123,600	(123,600)	-
	<u>123,600</u>	<u>(123,600)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(114,930)	8,576	(106,354)
Fund balances, beginning of year	1,591,434	361,533	1,952,967
FUND BALANCES, END OF YEAR	<u>\$ 1,476,504</u>	<u>\$ 370,109</u>	<u>\$ 1,846,613</u>

RECONCILIATION TO THE STATEMENT OF ACTIVITIES

There are no differences between net change in fund balances as presented in this statement and change in net position presented in the statement of activities.

See notes to financial statements

Trails Regional Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Trails Regional Library (the Library) have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

Reporting Entity: Trails Regional Library is a consolidated public library district, established May 27, 1980, as provided under the Revised Statutes of Missouri 182.610-182.620. The current district encompasses Johnson County and Lafayette County (excluding the Higginsville Municipal Library District). The governing body is the Trails Regional Library Board of Trustees consisting of ten members, five from each county appointed by the respective County Commissions. Administrative headquarters are at 432 North Holden Street, Warrensburg, Missouri. Community libraries are located at Warrensburg, Lexington, Odessa, Concordia, Knob Noster, Corder, Waverly and Holden.

The accompanying financial statements present the Library and its component units under discrete presentation. Component units are legally separate organizations for which the Library is financially accountable, or that raise and hold economic resources for the direct benefit of the Library. The Trails Regional Library Foundation is a non-profit organization governed by a ten member board, consisting of five members from Johnson County and five members from Lafayette County. The Friends of Trails Regional Library is a non-profit organization governed by a board consisting of four officers and one representative from each community library. Although these organizations are legally separate from the Library, they are reported as component units because their sole function is to facilitate fundraising activities that will be used exclusively for library programs. These organizations do not issue separate financial statements. Both organizations are exempt from tax under Section 501(c)3 of the Internal Revenue Code.

Basis of Presentation: The Library's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements that provide a more detailed level of financial information.

Government-Wide Financial Statements: The Statement of Net Position and the Statement of Activities present summaries of the Library's governmental activities and its component units. Governmental activities generally are financed through taxes, state grants and donations. The component units are financed primarily by donations.

The Statement of Net Position presents the financial condition of the Library's governmental activities and component units at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the governmental activities and component units. Direct expenses are those that are specifically associated with a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational requirements of a particular program.

Trails Regional Library

NOTES TO FINANCIAL STATEMENTS - CONT'D

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each function is self-financing or draws from the general revenues of the Library.

Fund Financial Statements: During the year the Library segregates transactions related to certain functions in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Library at this more detailed level. The focus of governmental fund financial statements is on major funds.

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's governmental funds are described below.

General Fund: The general fund is the primary operating fund of the Library. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Designated Gifts Fund: The designated gifts fund accounts for significant bequests and donations to the Library that are designated for specific functions or activities.

Basis of Accounting: Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied. The Library's policy is to prepare its financial statements on the modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues and expenditures/expenses when they result from cash transactions. For the financial statements, the cash basis is modified to present long-term investments arising from cash transactions in the government-wide statement of net position and fund balance sheets, rather than as expenditures in the government-wide statement of activities and fund statements of revenues, expenditures and changes in fund balances. The modified cash basis of accounting is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as property taxes and other receivables, and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements. Capital assets and long-term debt *are not presented* in the statement of net position. If the Library utilized the basis of accounting recognized as generally accepted, the governmental fund financial statements would use the modified accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting. The reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting when reviewing the accompanying financial information.

Trails Regional Library

NOTES TO FINANCIAL STATEMENTS - CONT'D

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

Measurement Focus: Measurement focus is a term used to describe “which” transactions are recorded with the various financial statements. The government-wide financial statements are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of changes in net position (or cost recovery) and financial position. All assets and liabilities associated with their activities are reported. The fund financial statements are presented using the current financial resources measurement focus. Only current financial assets and liabilities are generally included in the balance sheet. The operating statement presents sources and uses of available spendable financial resources during a given period. Fund balance is used as the measure of available spendable financial resources at the end of the period.

Equity:

Net position: In the government-wide financial statements, net position represents the difference between assets and liabilities. Net position is displayed in two components:

Restricted net position: Net position with limitations placed on its use either by enabling legislation adopted by the Library, or external restrictions imposed by creditors (through debt covenants), grantors, or laws and regulations of other governments.

Unrestricted net position: All remaining net position that does not meet the definition of “restricted.”

Fund balance: In the fund financial statements, governmental fund equity is classified as fund balance. Fund balance is classified within one of five categories:

Nonspendable: Funds that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact.

Restricted: Funds that are mandated for a specific purpose by external parties, such as creditors, grantors and contributors, or by state statute and other enabling legislation.

Committed: Funds that are set aside for a specific purpose determined by formal action of the Library's highest level of decision making authority, the Library's Board of Trustees. Restrictions are authorized by Board policy or resolution. A Board policy revision or a Board resolution is also required to modify or rescind the limitations placed on these funds.

Assigned: Funds that are set aside with the intent to be used for a specific purpose by the Library's Board of Trustees or an official that has been given the authority to assign funds. These funds do not meet the criteria to be classified as restricted or committed.

Unassigned: Residual amount for the general fund, after allocations to the other four categories. This category provides spendable resources to meet unexpected expenditures and revenue shortfalls.

When an expenditure is incurred for purposes for which both restricted and unrestricted resources (committed, assigned or unassigned) are available, the Library considers restricted amounts to be reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance categories could be used, the Library considers committed amounts reduced first, followed by assigned amounts and then unassigned amounts.

Risk Management: The Library has identified its significant risk areas, including property, liability, workers' compensation, and errors and omissions liability, and has covered those risks with the purchase of commercial insurance.

Trails Regional Library

NOTES TO FINANCIAL STATEMENTS - CONT'D

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

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

Budget: The Library's Board of Trustees adopts a complete annual operating budget for the General Fund. The budget is prepared on the modified cash basis of accounting, consistent with the basis of accounting used in presenting the fund financial statements. On June 22, 2017, the original (preliminary) budget was legally enacted by a vote of the Board of Trustees. Subsequent to its formal approval of the budget, the Board has the authority to make necessary adjustments to the budget by formal vote. On August 24, 2017, the Board approved the 2017 property tax levy and adopted the final budget. The final budget was amended May 16, 2018.

The Designated Gifts Fund is a non-budgeted fund that is permitted under state statute.

Subsequent Events: Subsequent events have been evaluated through September 12, 2018, which is the date these financial statements were available to be issued.

NOTE B--CASH AND INVESTMENTS

At June 30, 2018, cash and investments consisted of:

	<u>Primary Government</u>	<u>Component Units</u>
Demand deposits	\$1,846,613	\$ 73,764
Mutual funds	---	30,993
	<u>\$1,846,613</u>	<u>\$104,757</u>

Missouri statutes authorize the Library to deposit in open accounts, certificates of deposit, State of Missouri bonds, and obligations of the United States Treasury or any wholly-owned corporation of the United States. A separate bank account is maintained for the Designated Gifts Fund.

The component units do not have a formal investment policy.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a depository institution failure, the Library will not be able to recover deposits. The Library's policy is to collateralize deposits with securities held by the financial institution's agent in the Library's name. At June 30, 2018, the Library's deposits were covered by federal depository insurance or by collateral held in the Library's name by their financial institution's agent. Consequently, the Library was not exposed to any custodial credit risk.

The component units' demand deposits were covered by federal depository insurance. The mutual funds were uncollateralized.

Trails Regional Library

NOTES TO FINANCIAL STATEMENTS - CONT'D

NOTE C--PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on November 1 and payable by December 31. All unpaid taxes become delinquent January 1, of the following year. Johnson County and Lafayette County collect the property taxes and remit them to the Library on a monthly basis. Property tax revenues are recorded when received from the County.

The Library's tax levy per \$100 of assessed valuation of tangible taxable property for calendar year 2017 for purposes of local taxation was \$.2579. The assessed valuations of the tangible taxable property (excluding state assessed railroad and utilities) for calendar year 2017 for purposes of local taxation were \$639,549,645 for the Johnson County Library District and \$428,641,156 for the Lafayette County Library District.

NOTE D--PENSION PLAN

The Library's contributions to LAGERS were \$140,135 for the year ended June 30, 2018, with the employer contribution rate at 10.7% of annual covered payroll.

The following pension plan information is based on the prior year ended June 30, 2017. The required information for the year ended June 30, 2018 will not be available from the Missouri Local Government Employees Retirement System (LAGERS) until October, 2018.

PRIOR YEAR PLAN INFORMATION:

Plan description: Trails Regional Library participates in the Missouri Local Government Employees Retirement System (LAGERS), an agent multiple-employer statewide public employee pension plan established in 1967 and administered in accordance with RSMo. 70.600-70.755. As such, it is LAGERS responsibility to administer the law in accordance with the express intent of the General Assembly. The plan is qualified under Internal Revenue Code Section 401(a) and is tax exempt. The responsibility for the operation and administration of LAGERS is vested in the seven-member Board of Trustees. LAGERS issues a publicly available financial report, including financial statements and required supplementary information. That report may be obtained by accessing the LAGERS website at www.molagers.org.

Benefits provided: LAGERS provides retirement, death and disability benefits. Benefit provisions are adopted by the governing body of the employer, within the options available in the state statutes governing LAGERS. All benefits vest after 5 years of credited service. Employees who retire on or after age 60 with 5 or more years of service are entitled to an allowance for life based upon the benefit program information provided below. Employees may retire with an early retirement benefit with a minimum of 5 years of credited service and after attaining age 55 and receive a reduced allowance.

	<u>2017 Valuation</u>
Benefit Multiplier	1.50%
Final Average Salary	3 years
Member Contributions	0%

Benefit terms provide for annual post-retirement adjustments to each member's retirement allowance subsequent to the member's retirement date. The annual adjustment is based on the increase in the Consumer Price Index, and is limited to 4% per year.

Trails Regional Library

NOTES TO FINANCIAL STATEMENTS - CONT'D

NOTE D--PENSION PLAN - CONT'D

Employees covered by benefit terms: At June 30, 2017, the following employees were covered by the benefit terms:

Inactive employees/beneficiaries currently receiving benefits	33
Inactive employees entitled to but not yet receiving benefits	6
Active employees	<u>31</u>
Total	<u>70</u>

Contributions: The Library is required to contribute amounts at least equal to the actuarially determined rate, as established by LAGERS. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Library's employees do not contribute to the pension plan. Employer contribution rates were 9.8% of annual covered payroll. The Library's contribution to LAGERS was \$125,418 for the fiscal year ended June 30, 2017, under the modified cash basis of accounting.

Net Pension Liability: The employer's 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 February 28, 2017.

Actuarial Assumptions: The total pension liability in the February 28, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25% wage inflation; 2.5% price inflation
Salary increases	3.25% to 6.55% including wage inflation
Investment rate of return	7.25%, net of investment expenses

The healthy retiree mortality tables, for post-retirement mortality, were the RP-2014 Healthy Annuitant Mortality Table for males and females. The disabled retiree mortality tables, for post-retirement mortality, were the RP-2014 Disabled Mortality Table for males and females. The pre-retirement mortality tables used were the RP-2014 Employees Mortality Table for males and females.

Both the post-retirement and pre-retirement tables were adjusted for mortality improvement back to the observation period base year of 2006. The base year for males was then established to be 2017. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The actuarial assumptions used in the February 28, 2017 valuation were based on the results of an actuarial experience study for the period March 1, 2010 through February 28, 2015.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment expenses and 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

Trails Regional Library

NOTES TO FINANCIAL STATEMENTS - CONT'D

NOTE D--PENSION PLAN - CONT'D

the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	43%	5.29%
Fixed Income	26%	2.23%
Real Assets	21%	3.31%
Strategic Assets	10%	5.73%

Discount rate: The discount rate used to measure the total pension liability is 7.25%. The projection of cash flows used to determine the discount rate assumes that employer contributions will be made at the actuarially determined rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

Changes in the Net Pension Liability:

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Balance at June 30, 2016	\$5,454,658	\$5,530,644	\$ (75,986)
Changes for the year:			
Service cost	111,830		
Interest	390,382		
Expected vs. actual experience	176,375		
Contributions - employer		129,443	
Net investment income		646,239	
Benefit payments	(254,491)	(254,491)	
Administrative expense		(6,068)	
Other changes - net transfer		53,303	
Net changes	<u>424,096</u>	<u>568,426</u>	<u>(144,330)</u>
Balance at June 30, 2017	<u>\$5,878,754</u>	<u>\$6,099,070</u>	<u>\$(220,316)</u>

Sensitivity of the Net Pension Liability to changes in the discount rate: The following presents the Net Pension Liability of the employer, calculated using the discount rate of 7.25%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower, or 1 percentage point higher, than the current rate.

	<u>1% Decrease</u> 6.25%	<u>Current Single</u> Discount Rate 7.25%	<u>1% Increase</u> 8.25%
Total Pension Liability	\$6,595,831	\$5,878,754	\$5,275,596
Plan Fiduciary Net Position	<u>6,099,070</u>	<u>6,099,070</u>	<u>6,099,070</u>
Net Pension Liability (Asset)	<u>\$ 496,761</u>	<u>\$(220,316)</u>	<u>\$(823,474)</u>

Trails Regional Library

NOTES TO FINANCIAL STATEMENTS - CONT'D

NOTE E--COMMITMENTS - LONG-TERM DEBT

Long-term debt at June 30, 2018, consisted of the following:

Lease purchase agreement - Odessa facility

Monthly payments of \$7,030, including interest at 3.24%, are due through July 1, 2025. The interest rate will be adjusted on July 1, 2025 based on the 5-Year Treasury Constant Maturity Rate reported by the Federal Reserve Bank, but will not exceed 10%. Final maturity is July 1, 2030. \$825,032

Lease purchase agreement - Knob Noster facility:

Semi-annual payments, with interest at 4.95%, are due through February 1, 2020. Under the Recovery Zone Economic Development Bond program, 42% of each interest payment is reimbursed by the U.S. Department of Treasury. 95,000

\$920,032

These lease purchase agreements are annually renewable at the Library's option. The Library's obligation is limited to payment from available revenues, and the leases do not constitute a pledge of the general credit, tax revenues, funds, or moneys of the Library. Although the agreements provide for cancellation at the Library's option at the renewal date, the Library does not foresee exercising its option to cancel.

A summary of the lease transactions for the year ended June 30, 2018 follows:

Balance, July 1, 2017	\$1,020,502
Payments	<u>(100,470)</u>
Balance, June 30, 2018	<u>\$ 920,032</u>

Interest paid in the year ended June 30, 2018 was \$33,983, with a \$2,554 rebate received.

Annual debt service requirements to maturity, including principal and interest, as of June 30, 2018 are:

Year ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30,			
2019	\$ 95,500	\$ 30,125	\$ 125,625
2020	118,424	26,344	144,768
2021	62,411	21,957	84,368
2022	64,464	19,904	84,368
2023	66,584	17,784	84,368
2024-28	367,239	54,600	421,839
2029-30	<u>145,410</u>	<u>4,421</u>	<u>149,831</u>
	<u>\$920,032</u>	<u>\$175,135</u>	<u>\$1,095,167</u>

Trails Regional Library

NOTES TO FINANCIAL STATEMENTS - CONT'D

NOTE F--COMMITMENTS - OTHER

Employees earn paid time off in varying amounts depending on their job classification and length of service. Paid time off may be carried over to the subsequent year up to a maximum of 240 hours, and is payable at termination. At June 30, 2018, the liability for accumulated paid time off was approximately \$85,000. The amount expected to be paid from current resources is not significant.

NOTE G--NET POSITION/ FUND BALANCES

At June 30, 2018, the Library's fund balances are categorized as follows:

Nonspendable: The Library did not have nonspendable fund balance.

Restricted: The Designated Gifts Fund includes \$74,945 donated by John E. Martin for improvements to the Holden facility and \$172,766 donated by Kenneth and Marian Glazebrook for the Warrensburg facility. These amounts are also considered restricted net position.

Committed: The remaining balance of the Designated Gifts Fund is considered committed fund balance. According to Board policy, donations over \$5,000 are tracked individually. These gifts are not legally restricted, but the Board considers the donor's wishes as to use. The Board of Trustees must approve all expenditures prior to purchase.

Assigned: Within the General Fund, fund balance assigned by Board policy to Branch Funds, Development Reserve and Debt Service Reserve was \$44,689, \$62,960 and \$15,950, respectively.

Branch Funds: Small donations and patron sales proceeds are allocated to each branch. These funds may be used for small purchases at the discretion of the branch manager, with approval of the assistant director if over \$100.

Development Reserve: The library will accumulate a balance equal to approximately 15% of the total operating budget to be used for improvements to library facilities or other expenses approved by the Board. Transfers from this fund must be approved by the Board of Trustees.

Debt Service Reserve: The library will accrue funds for future payments on debt service, primarily for the final payment on the Knob Noster facility lease purchase agreement due in 2020. Transfers from this fund must be approved by the Board of Trustees.

Unassigned: The general fund balance remaining after allocations to the other four categories.

At June 30, 2018, component unit net position includes \$41,331 restricted by donors for branch facilities.

NOTE H--INTERFUND TRANSFER

The Library transferred \$123,600 from the Designated Gifts Fund to the General Fund toward the purchase of real estate as authorized by the Board.

Trails Regional Library

NOTES TO FINANCIAL STATEMENTS - CONT'D

NOTE I--TAX ABATEMENTS

Johnson County currently provides tax abatements under three programs: the Industrial Development Bond Program (Chapter 100 Bonds), the Tax Increment Financing Program (City of Warrensburg) and the Johnson County Enhanced Enterprise Zone.

- Missouri law authorizes municipalities to issue Industrial Development Bonds (IDBs), also known as Chapter 100 bonds, to finance industrial development projects. IDBs issued by a municipality do not require voter approval and may be issued as tax-exempt or non-tax-exempt. Upon issuance of taxable Chapter 100 bonds, the property taxes on bond-financed property may be abated. The municipality that issues the bonds must maintain legal ownership of the property while the bonds are outstanding in order for the property to be eligible for tax abatement. Sections 100.010 to 100.200 RSMo set forth the requirement governing IDBs. Bond revenues are used to pay eligible costs, which may include industrial plants, warehouses, distribution facilities, research and development facilities, office industries, services facilities providing interstate commerce, agricultural processing industries, land, buildings, fixtures and machinery.
- Tax Increment Financing (TIF) permits the use of a portion of state and local property, sales or personal income taxes to assist funding the redevelopment of certain designated areas within a community. A TIF area must contain property classified as a blighted, conservation or economic development area. A TIF area can have multiple Project Areas within a Redevelopment Area. The City establishes a TIF Commission and is charged with all the responsibilities for bringing a TIF redevelopment project to completion. Sections 99.800 to 99.865, RSMo authorize Missouri municipalities to implement tax increment financing and provide more detailed information regarding the use of this tool. Increases in property taxes due to new construction, rehabilitation and infrastructure improvements from the project are abated for up to 23 years. Property owners make Payments in Lieu of Taxes (PILOTS) to a special allocation fund for the amount of the taxes abated. 50% of all local Economic Activity Taxes (EATS) (e.g. sales, utility, and earnings taxes) generated within the project area are deposited in a special allocation fund. Proceeds in the special allocation fund are used to reimburse eligible costs, which may include professional fees, studies, surveys, plans, land acquisition, site preparation, and construction costs of both public and private improvements.
- Missouri law authorizes Counties and/or Cities to become designated as an Enhanced Enterprise Zone for the purpose of real estate property tax abatement for expanding eligible businesses within the designated geographic area for 25 years, under Sections 135.950 to 135.973, RSMo. The geographic area, based on census tract boundaries, must meet blighted and economic distress criteria in order to be eligible as an Enhanced Enterprise Zone. Eligible businesses must generate new jobs, investment and wage thresholds for the life of the abatement and are monitored annually for compliance. The Johnson County Enhanced Enterprise Zone encompasses a large portion of Johnson County, the municipalities of Centerview, Holden, Leeton and a portion of Warrensburg. The Johnson County Enhanced Enterprise Zone was created in July 2016 and will expire on July 2041. For more information about the Johnson County Enhanced Enterprise Zone, go to: <http://www.jocoeez.com>

Trails Regional Library

NOTES TO FINANCIAL STATEMENTS - CONT'D

NOTE I--TAX ABATEMENTS – CONT'D

On October 19, 2000, Johnson County entered into an Industrial Development Project agreement (Chapter 100 Bonds) with Associated Electric Cooperative, Inc. (AECI) in the amount of \$150,000,000. The bonds were issued for the construction of a new electric peaking plant located north of Holden in Johnson County, Missouri. The agreement called for Payments in Lieu of Taxes (PILOTS) to be paid to the taxing entities. For Trails Regional Library, the 2017 estimated real estate and personal property tax abated on this bond financed property, net of PILOTS received, was \$80,615.

In May 2008, the City of Warrensburg entered into an Industrial Development Project agreement (Chapter 100 Bonds) with EnerSys Energy Products, Inc. to expand their existing plant. The agreement called for Payments in Lieu of Taxes (PILOTS) to be paid to the taxing entities. For Trails Regional Library, the 2017 estimated real estate and personal property tax abated on this bond financed property, net of PILOTS received, was \$9,284.

In October 2015, the City of Warrensburg, with the recommendation of their Tax Increment Financing Commission, approved the Keystone Tax Increment Financing Redevelopment Plan at Maguire and Young streets. The agreement called for Payments in Lieu of Taxes (PILOTS) to be paid into a special allocation fund and used to reimburse eligible project costs. For Trails Regional Library, the 2017 estimated real estate and personal property tax abated under this project was \$1,058.

In 2016, Johnson County approved real estate tax abatements on improvements to real property for Fairview MO L.L.C. and Midwest Cast Products L.L.C under the Enhanced Enterprise Zone program. For Trails Regional Library, the 2017 estimated real estate tax abated under this program was \$540.

When total abatements are material to the financial statements, all tax abatement agreements are disclosed individually. The total amount of abated 2017 tax revenue was approximately \$91,497.

Trails Regional Library

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ARISING FROM MODIFIED CASH BASIS TRANSACTIONS - BUDGET AND ACTUAL
GENERAL FUND**

Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>General Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 2,729,800	\$ 2,754,864	\$ 2,840,542	\$ 85,678
State aid and grants	23,470	30,146	46,054	15,908
Charges for services	20,000	20,000	23,264	3,264
Donations	5,000	5,000	16,287	11,287
Interest	1,500	1,000	1,650	650
Other	10,000	10,000	18,512	8,512
	<u>2,789,770</u>	<u>2,821,010</u>	<u>2,946,309</u>	<u>125,299</u>
EXPENDITURES				
Salaries and benefits	1,974,000	2,012,500	1,894,166	118,334
Operations	224,175	223,200	175,869	47,331
Collections and services	389,500	402,750	356,363	46,387
Facilities and technology	190,100	183,600	173,325	10,275
Capital outlay	373,200	416,450	453,217	(36,767)
Debt service				
Principal retirement	93,470	93,470	100,470	(7,000)
Interest, net of rebate	30,780	31,530	31,429	101
	<u>3,275,225</u>	<u>3,363,500</u>	<u>3,184,839</u>	<u>178,661</u>
EXCESS REVENUES OVER EXPENDITURES	(485,455)	(542,490)	(238,530)	303,960
OTHER FINANCING SOURCES				
Transfers	<u>-</u>	<u>123,600</u>	<u>123,600</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	\$ (485,455)	\$ (418,890)	(114,930)	\$ 303,960
Fund balances, beginning of year			<u>1,591,434</u>	
FUND BALANCES, END OF YEAR			<u>\$ 1,476,504</u>	

See independent auditors' report

Trails Regional Library

**COMBINING SCHEDULE OF ASSETS, LIABILITIES AND NET POSITION
ARISING FROM MODIFIED CASH BASIS TRANSACTIONS
- COMPONENT UNITS**

June 30, 2018

	<u>Library Foundation</u>	<u>Friends of the Library</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 57,871	\$ 46,886	\$ 104,757
TOTAL ASSETS	<u>57,871</u>	<u>46,886</u>	<u>104,757</u>
NET POSITION			
Restricted--Note G	41,331	-	41,331
Unrestricted	<u>16,540</u>	<u>46,886</u>	<u>63,426</u>
TOTAL NET POSITION	<u>\$ 57,871</u>	<u>\$ 46,886</u>	<u>\$ 104,757</u>

See independent auditors' report

Trails Regional Library

**COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION ARISING FROM MODIFIED CASH BASIS TRANSACTIONS
- COMPONENT UNITS**

Year Ended June 30, 2018

	<u>Library Foundation</u>	<u>Friends of the Library</u>	<u>Total</u>
REVENUES			
Donations and other	\$ 10,889	\$ 11,930	\$ 22,819
Interest	<u>970</u>	<u>22</u>	<u>992</u>
	11,859	11,952	23,811
EXPENSES			
Program services	309	3,297	3,606
Donation to Library	<u>10,000</u>	<u>3,500</u>	<u>13,500</u>
	<u>10,309</u>	<u>6,797</u>	<u>17,106</u>
CHANGE IN NET POSITION	1,550	5,155	6,705
Net position, beginning of year	<u>56,321</u>	<u>41,731</u>	<u>98,052</u>
NET POSITION, END OF YEAR	<u>\$ 57,871</u>	<u>\$ 46,886</u>	<u>\$ 104,757</u>

See independent auditors' report

Trails Regional Library

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Fiscal year ending June 30,	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Pension Liability (TPL)										
Service cost	\$ 106,585	\$ 109,731	\$ 111,830							
Interest on total pension liability	338,328	353,147	390,382							
Changes of benefit terms	0	0	0							
Expected vs. actual experience	(9,585)	40,465	176,375							
Changes of assumptions	0	258,086	0							
Benefit payments	<u>221,924</u>	<u>243,448</u>	<u>254,491</u>							
Net change in TPL	213,424	517,981	424,096							
Beginning TPL	<u>4,723,253</u>	<u>4,936,677</u>	<u>5,454,658</u>							
Ending TPL (a)	<u>\$4,936,677</u>	<u>\$5,454,658</u>	<u>\$5,878,754</u>							
Plan Fiduciary Net Position										
Contributions - employer	\$ 155,312	\$ 132,734	\$ 129,443							
Contributions - employee	0	189,884	0							
Net investment income	101,302	(17,789)	646,239							
Benefit payments	221,924	243,448	254,491							
Administrative expense	6,058	5,803	6,068							
Other (net transfer)	<u>74,099</u>	<u>99,424</u>	<u>53,303</u>							
Change in net position	102,731	155,002	568,426							
Beginning net position	<u>5,272,911</u>	<u>5,375,642</u>	<u>5,530,644</u>							
Ending net position (b)	<u>\$5,375,642</u>	<u>\$5,530,644</u>	<u>\$6,099,070</u>							
Net pension liability(asset) (a-b)	\$(438,965)	\$(75,986)	\$(220,316)							
Net position as a % of TPL (b/a)	108.89%	101.39%	103.75%							
Covered employee payroll	\$1,204,531	\$1,210,771	\$1,243,217							
Net pension liability as a % of covered employee payroll	(36.44)%	(6.28)%	(17.72)%							

Trails Regional Library

SCHEDULE OF PENSION CONTRIBUTIONS

Fiscal Year	Actuarially Determined Contribution	Contribution in Relation	Contribution (Excess) Deficiency	Covered Employee Payroll	Contribution as a Percentage
2007	\$130,813	\$116,060	\$14,753	\$983,558	11.8%
2008	\$137,169	\$130,056	\$7,113	\$1,016,064	12.8%
2009	\$149,161	\$141,960	\$7,201	\$1,028,700	13.8%
2010	\$164,762	\$161,489	\$3,273	\$1,091,142	14.8%
2011	\$180,954	\$178,692	\$2,262	\$1,130,961	15.8%
2012	\$174,951	\$174,951	\$0	\$1,128,717	15.5%
2013	\$167,025	\$167,025	\$0	\$1,113,500	15.0%
2014	\$167,763	\$167,763	\$0	\$1,181,431	14.2%
2015	\$155,312	\$155,312	\$0	\$1,194,709	13.0%
2016	\$132,734	\$132,734	\$0	\$1,185,122	11.2%
2017	\$129,443	\$129,443	\$0	\$1,320,850	9.8%

Trails Regional Library

NOTES TO SCHEDULE OF PENSION CONTRIBUTIONS

Valuation Date: February 28, 2017
Notes: The roll-forward of total pension liability from February 28, 2017 to June 30, 2017 reflects expected service cost and interest reduced by actual benefit payments.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal and Modified Terminal Funding
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	Multiple bases from 12 to 15 years
Asset Valuation Method	5-Year smoothed market; 20% corridor
Inflation	3.25% wage inflation; 2.5% price inflation
Salary Increases	3.25% to 6.55% including wage inflation
Investment Rate of Return	7.25%, net of investment and administrative expenses
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	<p>The healthy retiree mortality tables, for post-retirement mortality, were the RP-2014 Healthy Annuitant mortality table for males and females. The disabled retiree mortality tables, for post-retirement mortality, were the RP-2014 disabled mortality table for males and females. The pre-retirement mortality tables used were the RP-2014 employees mortality table for males and females.</p> <p>Both the post-retirement and pre-retirement tables were adjusted for mortality improvement back to the observation period base year of 2006. The base year for males was then established to be 2017. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to the above described tables.</p>
Other Information	None

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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
Trails Regional Library
Warrensburg, Missouri

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units and each major fund of Trails Regional Library as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements and have issued our report thereon dated September 12, 2018. The Library prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions were qualified for the omission of the current year pension disclosures.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings and Responses as item 2018-1 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Library's Response to Findings

The Library's response to the findings 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 Library'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 Library's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gillum and Gillum CPA LLC

September 12, 2018

Trails Regional Library

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2018

SIGNIFICANT DEFICIENCIES

2018-1

Accounting System

Condition: The Library's accounting system uses numerous branch allocations, requiring detailed breakdowns on invoices and several monthly spreadsheet reports to allocate branch costs. As a result, less focus is placed on other accounting areas that are more significant to the Library's financial statements.

Criteria: The accounting system should provide accurate and useful financial reports.

Effect: We noted several errors in recording property tax deposits and debt payments that were not detected and corrected. Accounting staff spend significant time on branch allocations. Monthly financial statements should be more closely reviewed.

Recommendation: In prior years, the branch allocations were useful in facility renovation decisions. We recommend that the Library review the accounting system to ensure that financial reports provide the information needed for current decision making.

Response: We agree with the recommendation.