

PULASKI COUNTY PUBLIC LIBRARY DISTRICT

FINANCIAL STATEMENTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AND  
INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED JUNE 30, 2018



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the  
Pulaski County Public Library District

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the discretely presented component unit of the Pulaski County Public Library District, 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 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and discretely presented component unit of the Pulaski County Public Library District, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Change in Accounting Principle***

As discussed in Note 2 to the financial statements, in the year ended June 30, 2018, the Library adopted new accounting guidance, *GASB No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.



## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of proportionate share of the net pension liability, the schedule of pension contributions, the schedule of changes in benefits and assumptions- pension, schedule of proportionate share of the net OPEB liability, the schedule of OPEB contributions, and the schedule of changes in benefits and assumptions- OPEB on pages 3 through 6, and pages 27 through 33 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 November 7, 2018 on our consideration of the Pulaski County Public Library District'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 Pulaski County Public Library District's internal control over financial reporting and compliance.

***Craft, Noble & Company, PLLC***

Craft, Noble & Company, PLLC  
Richmond, Kentucky  
November 7, 2018

## **PULASKI COUNTY PUBLIC LIBRARY DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS**

*The Pulaski County Public Library District's management offers readers of the financial statements this narrative overview and analysis of the financial activities of the library for the fiscal year ended June 30, 2018. Please read this MD&A in conjunction with the Library's Financial Statements, which follow.*

### **Financial Highlights**

- I. The Library spent approximately 6.2% of its tax revenues on Library Materials.*
- II. The Library Board of Trustees maintained the same property tax rates as the prior year, and the Library's income from property tax increased 6.5% from the previous fiscal year.*
- III. The Library continues to spend on improved equipment and improved services.*

### **Overview of the Financial Statements**

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

### **Required Financial Statements**

The government-wide financial statements provide both long-term and short-term information about the Library's overall financial status. The fund financial statements focus on the current operational activity of the Library, reporting the Library's operations in more detail than the government-wide statements. Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison (year to year or government to government) and enhance the Library's accountability.

### **Government-Wide Statements**

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

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

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

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

### **Fund Financial Statements**

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

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

## Financial Analysis of the Library as a Whole

Below is an analysis of the comparative statement of net position for the years ending June 30, 2018 and 2017:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Variance</u>
Capital assets, net of depreciation	\$ 11,887,994	\$ 12,068,723	\$ (180,729)
Other assets	1,795,366	1,496,329	299,037
Deferred outflows	590,048	257,056	332,992
Long-term liabilities	7,429,179	7,342,751	86,428
Current liabilities	746,776	740,874	5,902
Deferred inflows	149,431	42,103	107,328
Invested in fixed assets	5,615,639	5,183,544	432,095
Unrestricted net position	332,383	512,836	(180,453)

### Revenue and Expense Comparison for the years ended:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Variance</u>
Taxing district revenues	\$ 2,703,486	\$ 2,564,995	\$ 138,491
Grant revenues	76,794	71,851	4,943
Investment income	2,544	1,978	566
Public support	44,267	50,127	(5,860)
Other revenues	-	22,849	(22,849)
Total revenues	<u>2,827,091</u>	<u>2,711,800</u>	<u>115,291</u>
Personnel expenses	1,221,749	1,031,466	190,283
Library materials	38,171	35,591	2,580
Repairs and maintenance	42,305	30,236	12,069
Telecommunication	98,048	85,629	12,419
Utilities	111,523	104,694	6,829
Insurance	34,746	39,873	(5,127)
Office supplies	9,180	10,853	(1,673)
Professional fes	85,491	81,717	3,774
Postage	5,936	6,956	(1,020)
Bookmobile	2,002	2,998	(996)
Staff development	10,276	6,403	3,873
Public relations	2,975	2,274	701
Grant expenses	5,285	7,201	(1,916)
Rent	9,600	9,600	-
Library supplies	8,633	9,792	(1,159)
Other expenses	17,974	44,625	(26,651)
Interest expense	155,747	210,435	(54,688)
Depreciation expense	382,977	369,070	13,907
Total expenditures	<u>2,242,618</u>	<u>2,089,413</u>	<u>153,205</u>
Transfers from component unit	<u>-</u>	<u>5,757</u>	<u>(5,757)</u>
Change in net position	<u>\$ 584,473</u>	<u>\$ 628,144</u>	<u>\$ (37,914)</u>

The Library's net position increased by approximately \$584,000 during this fiscal year. When compared to the prior year, the net position increased by approximately \$251,000 and the unrestricted net position decreased by approximately \$180,000 primarily due to a one-time charge of \$332,831 as a result of the restatement of beginning net position due to the adoption of Government Accounting Standards Board (GASB) Statement no. 75.

The Library's main source of revenue is property tax, which is approximately 96% of the Library's total revenue. This revenue increased by approximately 5.3% over the previous fiscal year. Other income sources included grants, donations, state aid, and fines and fees. Total operating expenses increased by only .2% from the previous fiscal year. The personnel expense is by far the largest expense and represents 54% of total operating expenditures – a little below the state average of 64%. Personnel expenditures increased about 18% from the previous year, primarily as a result of the additional \$159,939 in pension expense pursuant to GASB 68 and 75.

## Capital Asset Activity

Capital asset activity included the installation of a new roof on the previous library building, which we still own.

Also, the final expenditures were made during the current year to allow for the completion and usage of the new bookmobile.

All fixed asset additions were funded through the capital development fund without the use of bonding.

## Budget Highlights

The Library adopts an annual budget at the June Board meeting after it has been presented in May for discussion. The budget is devised through a cooperative team of Board members, Management staff, plus the Bookkeeper/Administrative Assistant. Meetings are held prior to the June Board meeting, and goals for the next year are established by the staff and possible expenditures related to those goals are identified. The Operating Budget includes proposed expenses and the means of financing them. The Library's operating budget is amended during the year if unusual events occur. A current Fiscal Year budget comparison for the current month and year to date is presented to management and the Board of Trustees as interim financial statements; however, they are not reported on, nor shown, on the financial statements section of this report. A procurement policy has been established by the Board to give direction to larger spending amounts.

The Library has operated on a zero-balance budget so that at the end of the fiscal year each budget category reverts back to the new balance for the new year. Each year the library staff has worked diligently to keep the overall budget in line with the projected budget. Some categories may be over but in general the overall amounts are taken to the Board of Trustees for approval before the purchase is made. Please note that this budget comparison is prior to any audit adjustments purposes.

A summarized comparison of budget highlights is listed below:

Budget Comparison for 2018 – 2017			
	<u>Budgeted</u>	<u>Actual Amount</u>	<u>Difference</u>
Net Revenue	\$ 2,573,600	\$ 2,827,091	\$ 253,491
Personnel expenses	1,078,830	1,061,810	17,020
Library Materials	44,500	38,171	6,329
Repairs and maintenance	66,000	42,305	23,695
Telecommunication	89,000	98,048	(9,048)
Utilities	115,000	111,523	3,477
Insurance	30,000	34,746	(4,746)
Office supplies	11,000	9,180	1,820
Professional fees	84,000	85,491	(1,491)
Postage	6,000	5,936	64
Bookmobile	5,000	2,002	2,998
Staff development	9,500	10,276	(776)
Public relations	7,000	2,975	4,025
Grant expenses	5,000	5,285	(285)
Rent	9,600	9,600	-
Library supplies	7,000	8,633	(1,633)
Other expenses	13,000	17,974	(4,974)
Capital outlay	301,301	202,251	99,050
Debt service	802,000	734,312	67,688
Total Budgeted	<u>\$ (110,131)</u>	<u>\$ 346,573</u>	<u>\$ 456,704</u>

### **Investment Administration**

The Library continues to save funds from unspent fiscal year budgets to use in future capital expansion projects. These funds are invested in interest bearing accounts in several different banks, and they are managed by the Library Board of Trustees. Monitoring interest rates are the responsibility of the Library Board of Trustees.

### **Economic Factors and Next Year's Budget**

The Library considered many factors when setting the fiscal year 2018 budget. One of the factors was the local economy and anticipated tax revenue to be expected from the property tax. This is the Library's main source of revenue. The Library's operating expense increases and future capital expansion plans are dependent upon growth in tax revenue.

### **Contacting the Library Management**

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



Pulaski County Public Library District  
Statement of Net Position  
June 30, 2018

	Primary Governmental Activities	Component Unit
Assets		
Cash and cash equivalents	\$ 1,673,854	\$ 64,466
Investments	-	128,159
Taxes receivable	73,625	-
Prepaid insurance and expenses	32,887	-
Other assets	15,000	-
Fixed Assets:		
Depreciable buildings, property and equipment, net of depreciation	10,637,276	2,220
Land	1,250,718	-
Total Fixed Assets	11,887,994	2,220
Total Assets	\$ 13,683,360	\$ 194,845
Deferred Outflows of Resources:		
Subsequent pension & OPEB contributions	\$ 107,356	\$ -
Deferred outflows related to pensions	385,400	-
Deferred outflows related to OPEB	97,292	-
Total Deferred Outflows of Resources	\$ 590,048	\$ -
Liabilities:		
Accounts payable	\$ 21,836	\$ -
Accrued expenses	22,159	-
Accrued interest payable	71,718	-
Current portion of compensated absences	5,000	-
Current portion of bond premium	34,258	-
Current portion of long-term debt	591,805	-
Long-Term Obligations:		
Compensated absences	33,775	-
Long-term debt	5,377,939	-
Bond premium	268,353	-
Net pension liability	1,301,984	-
Net OPEB liability	447,128	-
Total Liabilities	\$ 8,175,955	\$ -
Deferred Inflows of Resources:		
Deferred inflows related to pensions	\$ 126,021	\$ -
Deferred inflows related to OPEB	23,410	-
Total Deferred Inflows of Resources	\$ 149,431	\$ -
Net Position:		
Unrestricted	332,383	192,625
Invested in fixed assets	5,615,639	2,220
Total Net Position	\$ 5,948,022	\$ 194,845

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

Pulaski County Public Library District  
Statement of Activities  
For The Year Ended June 30, 2018

Functions/Programs	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>	
					<u>Primary Government</u>	<u>Component Unit</u>
Primary Government						
Governmental activities						
Cultural and recreations	\$ (2,242,618)	44,267	33,794	43,000	\$ (2,121,557)	\$ -
Component Unit						
Pulaski County Public Library Foundation	\$ (11,159)	-	1,610	-	\$ -	(9,549)
General Revenues:						
					\$ 2,703,486	\$ -
					2,544	3,650
					-	-
					<u>2,706,030</u>	<u>3,650</u>
					<u>584,473</u>	<u>(5,899)</u>
					<u>5,363,549</u>	<u>200,744</u>
					<u>\$ 5,948,022</u>	<u>\$ 194,845</u>

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

Pulaski County Public Library District  
Balance Sheet  
Governmental Fund  
June 30, 2018

	Governmental Fund
Assets	
Cash and cash equivalents	\$ 1,673,854
Taxes receivable	73,625
Prepaid insurance and expenses	32,887
Other assets	15,000
Total Assets	<u>\$ 1,795,366</u>
Liabilities	
Accounts payable	\$ 21,836
Accrued expenses	22,159
Compensated absences	5,000
Total Liabilities	<u>\$ 48,995</u>
Fund Balances	
Nonspendable- prepaid insurance and expenses	\$ 32,887
Nonspendable- other assets	15,000
Unassigned	1,698,484
Total Fund Balances	<u>\$ 1,746,371</u>
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the fund	\$ 11,887,994
Deferred outflows, inflows, and net pension and OPEB liabilities related to the implementation of GASB 68 and 75 which are not receivable or payable in the current period and therefore, not reported in the fund	(1,308,495)
Certain liabilities (including bonds payable, bond premium, and compensated absences) are not due and payable in the current period and therefore, not reported in the fund	<u>(6,377,848)</u>
Net position of governmental activities	<u>\$ 5,948,022</u>

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

Pulaski County Public Library District  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Governmental Fund  
For The Year Ended June 30, 2018

	Governmental Fund
Revenues	
Taxing district revenues	\$ 2,703,486
Grant revenues	76,794
Investment income	2,544
Charges for services	44,267
Other revenues	-
Total Revenues	<u>2,827,091</u>
Expenditures	
Personnel expenses	1,061,810
Library materials	38,171
Repairs and maintenance	42,305
Telecommunication	98,048
Utilities	111,523
Insurance	34,746
Office supplies	9,180
Professional fees	85,491
Postage	5,936
Bookmobile	2,002
Staff development	10,276
Public relations	2,975
Grant expenses	5,285
Rent	9,600
Library supplies	8,633
Other expenses	17,974
Total Current Expenditures	<u>1,543,955</u>
Operating capital outlays	202,251
Debt Service	
Principal	578,565
Interest	155,747
Total Expenditures	<u>2,480,518</u>
Net change in fund balance	346,573
Fund balance - beginning	1,399,798
Fund balance - ending	<u><u>\$ 1,746,371</u></u>

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

Pulaski County Public Library District  
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund  
Balance of Governmental Fund to the Statement of Activities  
For The Year Ended June 30, 2018

Reconciliation to the Statement of Activities:

Net Change in Fund Balance - Governmental Fund	\$	346,573
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Government Funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets are allocated over their useful lives and reported as depreciation expenses.

Capital Outlay		202,251
Depreciation Expense		(382,977)

Governmental Funds report pension and OPEB related expenses of \$115,486. However, the Statement of Net Position reports pension and OPEB expenses calculated pursuant to GASB 68 and 75 of \$275,425.		(159,939)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the Statement of Net Position		578,565
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Government Funds report expense as paid by the Organization; however, in the Statement of Activities, expenses are reported as due based on a 60-day accrual. Accordingly, the Statement of Activities recorded more expenses than the fund accounting due to accrued compensated absences.		-
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Change in Net Position of Governmental Activities	\$	584,473
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PULASKI COUNTY PUBLIC LIBRARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Pulaski County Public Library District is an independent government unit established in 1967 in accordance with K.R.S. 65.182 et. seq. and K.R.S. 173.450 et. seq. It is governed by a Board of Trustees who are appointed by the County Judge Executive with the prior approval of the State Librarian and Commissioner. A countywide tax shall be collected for the public library district in the manner described in K.R.S. 65.182 and other applicable law. The affairs of the public library district shall be operated by a Board of Trustees as set forth by K.R.S. 173.450.

The Library was created to provide all Pulaski County residents with access to public library services, and to establish, equip, maintain and administer a countywide public library system. The Library provides current, high-demand, high-interest materials in various formats for people of all ages. Special emphasis is placed on supporting students of all ages and academic levels with their formal and informal courses of study and self-improvement. The library serves as a learning and educational center for all resident of the community.

The Pulaski County Public Library Foundation was evaluated and included as a discretely presented component unit due to the amount of donations received for the District and the fact that the Foundation serves the Library exclusively. According to the Articles of Incorporation for the Foundation, several members of the Board of Trustees for the District also serve on the Board of Directors for the Foundation.

Basis of Presentation

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

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

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

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

Basis of Accounting

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

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Property taxes are recorded as revenue when collected and available to be remitted to the Library by county tax collection agencies. Expenditures are recognized when the related fund liability is incurred.

Cash and Cash Equivalents

The Library considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

PULASKI COUNTY PUBLIC LIBRARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgeting

The Organization follows the procedures established pursuant to Section 91A.030 of the Kentucky Statutes in establishing the budgetary data reflected in the financial statements. Budgets for the general fund are adopted on a basis consistent with United States generally accepted accounting principles.

Receivables and Property Tax Revenues

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

Property, Equipment and Depreciation

Property and equipment is stated at cost or, if donated, at the approximate fair value at the date of donation. All property and equipment purchases have been capitalized and recorded in the government-wide financial statements. Additionally, as all capital assets are directly utilized in the Library's operating activities, an expense for capital outlays has been reported in the fund financial statements. The Library depreciates all books and materials as over five years.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Depreciation for the year ended June 30, 2018 was \$382,977.

Fund Balance

As of June 30, 2012, the Library implemented GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions. Fund balances of the governmental funds are classified as follows:

*Nonspendable* – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

*Restricted* – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

*Committed* – amounts that can be used only for specific purposes determined by a formal action of the Board. The Board is the highest level of decision-making authority for the Library. Commitments may be established, modified, or rescinded only through resolutions approved by the Board.

*Assigned* – amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. Only the Board may assign amounts for specific purposes.

*Unassigned* – all other spendable amounts.

As of June 30, 2018, fund balances are comprised of the following:

	<u>General Fund</u>
Nonspendable- Prepaid insurance and expenses	\$ 32,887
Nonspendable- Other Assets	15,000
Unassigned	1,698,484

PULASKI COUNTY PUBLIC LIBRARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

Retirement Plan

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

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE

The Library adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for the year ended June 30, 2018. This guidance changes how governments calculate and report the costs and obligations associated with other post-employment employee benefits (OPEB). It is designed to improve the information provided by state and local government employers about financial support for OPEB that is provided by other entities.

NOTE 3 – CONCENTRATION OF CREDIT RISK

The Library maintains cash and cash equivalents in local banks which may, at times, exceed the FDIC limits. The Library’s cash and cash equivalents are categorized as either (1) insured or collateralized with securities held by the entity or by its agent in the entity’s name, (2) collateralized with securities held by the pledging financial institution’s trust department or agent in the entity’s name or (3) uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity’s name). The Library’s categorization as of June 30, 2018 was as follows:

Category 1	\$	922,683
Category 2	\$	848,735
Category 3	\$	-

NOTE 4 – INVESTMENTS

Investments are carried at cost which approximates fair market value.

The Library’s investment policy is governed by the State of Kentucky Statutes. These requirements authorize the Library to invest in obligations backed by the full faith and credit of the United States and obligations of any corporation of the United States government, obligations issued by Kentucky, its agencies and instrumentalities, and obligations issued by any state or local government and rated in one of the three highest categories by at least one rating agency. The policy requires that amounts on deposit with financial institutions be collateralized at a rate of 100% of amounts in excess of deposit insurance coverage. As of June 30, 2018, all investments are certificates of deposit and marketable debt and equity securities.



PULASKI COUNTY PUBLIC LIBRARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 4 – INVESTMENTS (CONTINUED)

**Fair Value Measurements**

FASB issued FASB ASC 820, *Fair Value Measurements and Disclosures* in order to establish a single definition of fair value and a framework for measuring fair value in Generally Accepted Accounting Principles (GAAP) that is intended to result in increased consistency and comparability in fair value measurements. FASB ASC 820 also expands disclosures about fair value measurements. FASB ASC 820 applies whenever other authoritative literature requires (or permits) certain assets or liabilities to be measured for fair value, but does not expand the use of fair value.

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

Level 1 – Asset and liability fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2 – Asset and liability fair values are based on observable inputs that include quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets and liabilities. Level 2 assets and liabilities include certificates of deposit.

Level 3 – Assets and liabilities are financial instruments whose value is calculated by the use of pricing models and/or discounted cash flow methodologies, as well as financial instruments for which the determination of fair value requires significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

Fair value of assets and liabilities measured on a recurring basis at June 30, 2018 are as follows:

		Quoted Prices in Active Markets for Identical Assets/Liabilities	Significant Other Observable Inputs	Significant Unobservable Inputs
	<u>Fair value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Certificates of deposit	\$ 9,930	\$ -	\$ 9,930	\$ -
Debt and equity securities	118,229	118,229	-	-
Total	<u>\$ 128,159</u>	<u>\$ 118,229</u>	<u>\$ 9,930</u>	<u>\$ -</u>

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

PULASKI COUNTY PUBLIC LIBRARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

Governmental Activities	July 1, 2017	Increases	Decreases	June 30, 2018
Land	\$ 1,250,718	\$ -	\$ -	\$ 1,250,718
Books	1,008,320	129,999	-	1,138,319
Buildings and improvements	11,892,280	53,804	-	11,946,084
Equipment, furniture, and fixtures	1,429,851	18,448	-	1,448,299
Total at historical cost	15,581,169	202,251	-	15,783,420
Less accumulated depreciation	3,512,449	382,977	-	3,895,426
Capital assets – net	\$ 12,068,720	\$ (180,726)	\$ -	\$ 11,887,994

  

Component Unit	July 1, 2017	Increases	Decreases	June 30, 2018
Equipment	\$ 4,912	\$ -	\$ -	\$ 4,912
Total at historical cost	4,912	-	-	4,912
Less accumulated depreciation	2,083	609	-	2,692
Capital assets – net	\$ 2,829	\$ (609)	\$ -	\$ 2,220

NOTE 6 – COMPENSATED ABSENCES

It is the Library's policy to compensate all employees for certain absences not used at the end of their employment. As of June 30, 2018, the liability for these absences was \$38,775 and has been included in the personnel expenses. Such liability is recorded in the government-wide financial statements.

NOTE 7 – LONG-TERM DEBT

Series 2008 Bonds

The Library issued \$540,000 of General Obligation Refunding Bonds, Series 2008 dated June 1, 2008, with an average interest rate of 3.7% for the expansion project of the Library's main branch. The bonds will mature on June 1, 2026.

The maturities of bonds payable of \$250,000 are summarized as follows:

	Principal	Interest	Total
June 2019	\$ 25,000	\$ 9,250	\$ 34,250
June 2020	30,000	8,325	38,325
June 2021	30,000	7,215	37,215
June 2022	30,000	6,105	36,105
June 2023	30,000	4,995	34,995
June 2024-2016	105,000	7,770	112,770
Total	\$ 250,000	\$ 43,660	\$ 293,660

PULASKI COUNTY PUBLIC LIBRARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 7 – LONG-TERM DEBT (CONTINUED)

Series 2016 Bonds

The Library issued \$6,805,000 of General Obligation Refunding Bonds, Series 2016, (advance refunding) dated March 17, 2016, with an average interest rate of 3% to refund the Series 2006 & 2007 General Obligation Bonds. The bonds will mature on June 30, 2027.

The maturities of bonds payable of \$5,690,000 are summarized as follows:

	Principal	Interest	Total
June 2019	\$ 560,000	\$ 170,700	\$ 730,700
June 2020	575,000	153,900	728,900
June 2021	590,000	136,650	726,650
June 2022	615,000	118,950	733,950
June 2023	635,000	100,500	735,500
June 2024 - 2027	2,715,000	206,850	2,921,850
Total	<u>\$ 5,690,000</u>	<u>\$ 887,550</u>	<u>\$ 6,577,550</u>

Premium on Series 2016 Bonds

The Series 2016 Bonds were issued at a premium of \$376,837 which will be amortized over the life of the bonds which was 132 months. Below is the amortization of the bond premium of \$302,611.

	Bond Premium
June 2019	\$ 34,258
June 2020	34,258
June 2021	34,258
June 2022	34,258
June 2023	34,258
June 2024 - 2027	131,321
Total	<u>\$ 302,611</u>

Note Payable

The Library borrowed \$100,000, dated August 13, 2013. The note was refinanced in July 2017 with an interest rate of 4.75% and a maturity date of June 15, 2022.

The maturities of note payable of \$29,744 are summarized as follows:

	Principal	Interest	Total
June 2019	\$ 6,805	\$ 1,416	\$ 8,221
June 2020	7,285	935	8,220
June 2021	7,641	579	8,220
June 2022	8,013	208	8,221
Total	<u>\$ 29,744</u>	<u>\$ 3,138</u>	<u>\$ 32,882</u>

PULASKI COUNTY PUBLIC LIBRARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 8 – LONG-TERM OBLIGATIONS

A summary of changes in long-term obligations follows:

	Compensated Absences	Bonds & Notes Payable	Bond Premium	Net Pension Liability	Net OPEB Liability	Total
Payable at June 30, 2017	\$ 40,234	\$ 6,548,309	\$ 336,869	\$ 1,030,197	\$ 350,713	\$ 8,306,322
Increase in liability	-	-	-	271,787	96,415	368,202
Decrease in liability	(1,459)	(578,565)	(34,258)	-	-	(614,282)
Payable at June 30, 2018	<u>\$ 38,775</u>	<u>\$ 5,969,744</u>	<u>\$ 302,611</u>	<u>\$ 1,301,984</u>	<u>\$ 447,128</u>	<u>\$ 8,060,242</u>

The annual debt services requirements to maturity for the long-term debt are as follows:

	Principal	Interest	Premium Amortization	Total
June 2019	\$ 591,805	\$ 181,366	\$ 34,258	\$ 773,171
June 2020	612,285	163,160	34,258	775,445
June 2021	627,641	144,444	34,258	772,085
June 2022	653,013	125,263	34,258	778,276
June 2023	665,000	105,495	34,258	770,495
June 2024 - 2027	2,820,000	214,620	131,321	3,034,620
Total	<u>\$ 5,969,744</u>	<u>\$ 934,348</u>	<u>\$ 302,611</u>	<u>\$ 6,904,092</u>

NOTE 9 – PROPERTY TAX CALENDAR

Property taxes for fiscal year 2018 were levied on October 1, 2017 on the assessed property located in Pulaski County as of the preceding January 1. The assessments are determined by the County Property Valuation Administrator in accordance with Kentucky Revised Statutes. The due date collection periods for all taxes exclusive of vehicle taxes are as follows:

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

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

PULASKI COUNTY PUBLIC LIBRARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

**NOTE 10 – RETIREMENT PLAN**

The Library's employees are provided with the County Employees Retirement System.

**General information about the County Employees Retirement System Non-Hazardous ("CERS")**

Plan description—Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

*Benefits provided*—CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions—Required contributions by the employee are based on the tier:

	<u>Required contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

PULASKI COUNTY PUBLIC LIBRARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

**NOTE 10 – RETIREMENT PLAN (CONTINUED)**

All current employees participating in County Employees Retirement Systems (CERS) are eligible for healthcare benefits provided by KRS in conjunction with their pension service benefits described. Retiree cost depends on length of service prior to retirement. Employer contribution rates are established annually by the KRS Board of Trustees. KRS issues separate stand-alone financial statements for the statewide multiple employer cost-sharing plan that provides other post-employment benefits for local government employees participating in CERS.

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

At June 30, 2018, the Library reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the Library as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the Library were as follows:

Library's proportionate share of the CERS net pension liability	\$	1,301,984
Commonwealth's proportionate share of the CERS net pension liability associated with the Library		<u>5,852,005,459</u>
	\$	<u><u>5,853,307,443</u></u>

The net pension liability for each plan 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 for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2017, the Library's proportion was 0.022242% percent.

For the year ended June 30, 2018, the Library recognized pension expense of \$227,280 related to CERS. At June 30, 2018, the Library reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between projected and actual experience	\$ 1,615	\$ 33,047
Changes of assumptions	240,229	-
Difference between projected and actual earnings on plan investments	103,106	87,004
Changes in proportion and differences between Company contributions and proportionate share of contributions	40,450	5,970
Library contributions subsequent to the measurement date	<u>81,049</u>	<u>-</u>
Total	<u>\$ 466,449</u>	<u>\$ 126,021</u>

The \$81,049 reported as deferred outflows of resources related to pensions resulting from Library contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows on the next page.

PULASKI COUNTY PUBLIC LIBRARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 10 – RETIREMENT PLAN (CONTINUED)

**Year ending June 30,**

2019	\$ 111,569
2020	112,990
2021	51,537
2022	(16,717)

*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:

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

For CERS, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in the mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

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

The target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash Equivalent	2.00%	1.88%
Total	<b>100.00%</b>	<b>6.56%</b>

PULASKI COUNTY PUBLIC LIBRARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

**NOTE 10 – RETIREMENT PLAN (CONTINUED)**

*Discount rate*—For CERS, the discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Library's proportionate share of net pension liability to changes in the discount rate*—The following table presents the net pension liability of the Library, calculated using the discount rates selected by each pension system, as well as what the Library's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

	<b>Discount rate</b>	<b>Library's proportionate share of net pension</b>
1% decrease	5.25%	\$ 1,641,968
Current discount rate	6.25%	\$ 1,301,984
1% increase	7.25%	\$ 1,017,422

*Pension plan fiduciary net position*—Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of CERS.

The Library's employees are provided with the County Employees Retirement System.

**Other Post-Employment Benefits (OPEB) Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

At June 30, 2018, the Library reported a liability for its proportionate share of the OPEB liability for CERS. The amount recognized by the Library as its proportionate share of the net OPEB liability, the related Commonwealth support, and the total portion of the net OPEB liability that was associated with the Library were as follows:

Library's proportionate share of the CERS net OPEB liability	\$ 447,128
Commonwealth's proportionate share of the CERS net OPEB liability associated with the Library	2,009,894,926
	<u>\$ 2,010,342,054</u>

The net OPEB liability for each plan was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

The Library's proportion of the net OPEB liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2017, the Library's proportion was 0.022242% percent.



PULASKI COUNTY PUBLIC LIBRARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 10 – RETIREMENT PLAN (CONTINUED)**

For the year ended June 30, 2018, the Library recognized OPEB expense of \$48,145 related to CERS. At June 30, 2018, the Library reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between projected and actual experience	\$ -	\$ 1,242
Changes of assumptions	97,292	-
Difference between projected and actual earnings on Plan investments	-	21,131
Changes in proportion and differences between Company contributions and proportionate share of contributions	-	1,037
Library contributions subsequent to the measurement date	<u>26,307</u>	<u>-</u>
Total	<u>\$ 123,599</u>	<u>\$ 23,410</u>

The \$26,307 reported as deferred outflows of resources related to OPEBs resulting from Library contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows related to OPEBs will be recognized as a decrease in OPEB expense as follows:

**Year ending June 30,**

2019	\$ 12,712
2020	12,712
2021	12,712
2022	12,712
2023	17,995
2024 and thereafter	5,039

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

Inflation	2.30%
Healthcare Cost Trend Rate	7.50%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

For CERS, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in the mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

PULASKI COUNTY PUBLIC LIBRARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

**NOTE 10 – RETIREMENT PLAN (CONTINUED)**

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

The target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash Equivalent	2.00%	1.88%
<b>Total</b>	<b>100.00%</b>	<b>6.56%</b>

*Discount rate*—For CERS, the discount rate used to measure the total OPEB liability was 5.845%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

*Sensitivity of the Library's proportionate share of net OPEB liability to changes in the discount rate*—The following table presents the net OPEB liability of the Library, calculated using the discount rates selected by each OPEB system, as well as what the Library's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

	Discount rate	Library's proportionate share of net OPEB liability
1% decrease	4.84%	\$ 568,961
Current discount rate	5.84%	\$ 447,128
1% increase	6.84%	\$ 345,766

PULASKI COUNTY PUBLIC LIBRARY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 10 – RETIREMENT PLAN (CONTINUED)

*Sensitivity of the Library's proportionate share of net OPEB liability to changes in the healthcare cost trend rate—*  
The following table presents the net OPEB liability of the Library, calculated using the current healthcare cost trend rate selected by each OPEB system, as well as what the Library's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

	<u>Library's proportionate share of net OPEB liability</u>
1% decrease	\$ 342,980
Current healthcare cost trend rate	\$ 447,128
1% increase	\$ 582,543

*OPEB plan fiduciary net position—*Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial reports of CERS. The reports are available on the Kentucky Retirement Systems website.

NOTE 11 – RISK MANAGEMENT

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

NOTE 12 – RESTATEMENT OF BEGINNING NET POSITION

Effective July 1, 2017, the Library was required to adopt Governmental Accounting Standards Board (GASB) Statement no. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions" (GASB 75). GASB 75 replaced the requirements of GASB 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions" and GASB 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", as they relate to governments that provide OPEBs through retirement plans administered as trusts or similar arrangements that meet certain criteria. GASB 75 requires governments providing defined benefit OPEB to recognize their long-term obligation for OPEB benefits as a liability to more comprehensively and comparably measure the annual costs of OPEB. Cost-sharing governmental employers, such as the Library, are required to report a net OPEB liability, OPEB expense and OPEB-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

GASB 75 required retrospective application. Since the Library only presents one year of financial information, the beginning net position was adjusted to reflect the retrospective application. The adjustment resulted in a \$332,831 reduction in beginning net position on the Statement of Activities.

Ending Net Position per 2017 Audit Statement of Activities	\$ 5,696,380
Adjustment due to implementation of GASB 75	<u>332,831</u>
Restated beginning Net Position on Statement of Activities	<u>\$ 5,363,549</u>

NOTE 13 – SUBSEQUENT EVENTS

Management of the Organization has considered subsequent events through November 7, 2018, the date this report became available for issuance.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees  
Pulaski County Public Library District  
Somerset, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of Pulaski County Public Library District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Pulaski County Public Library District's basic financial statements, and have issued our report thereon dated November 7, 2018.

### Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pulaski County Public Library District'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*.



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## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Craft, Noble & Company, PLLC*

Craft, Noble & Company, PLLC  
Richmond, Kentucky  
November 7, 2018

Pulaski County Public Library District  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual  
For The Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance
Revenues				
Taxing district revenues	\$ 2,450,000	\$ 2,450,000	\$ 2,703,486	\$ 253,486
Grant revenues	74,500	74,500	71,850	(2,650)
Investment income	1,100	1,100	2,544	1,444
Public support	8,000	8,000	4,944	(3,056)
Other revenues	40,000	40,000	44,267	4,267
Total Revenues	2,573,600	2,573,600	2,827,091	253,491
Expenditures				
Current				
Personnel expenses	1,078,830	1,078,830	1,061,810	17,020
Library materials	44,500	44,500	38,171	6,329
Repairs and maintenance	66,000	66,000	42,305	23,695
Telecommunication	89,000	89,000	98,048	(9,048)
Utilities	115,000	115,000	111,523	3,477
Insurance	30,000	30,000	34,746	(4,746)
Office supplies	11,000	11,000	9,180	1,820
Professional fees	84,000	84,000	85,491	(1,491)
Postage	6,000	6,000	5,936	64
Bookmobile	5,000	5,000	2,002	2,998
Staff development	9,500	9,500	10,276	(776)
Public relations	7,000	7,000	2,975	4,025
Grant expenses	5,000	5,000	5,285	(285)
Rent	9,600	9,600	9,600	-
Library supplies	7,000	7,000	8,633	(1,633)
Other expenses	13,000	13,000	17,974	(4,974)
Total Current Expenditures	1,580,430	1,580,430	1,543,955	36,475
Operating capital outlays	301,301	301,301	202,251	99,050
Debt service principal and interest	802,000	802,000	734,312	(67,688)
Total Expenditures	2,683,731	2,683,731	2,480,518	203,213
Net change in fund balance	(110,131)	(110,131)	346,573	456,704
Fund balance - beginning	-	686,797	1,399,798	
Fund balance - ending	\$ (110,131)	\$ 576,666	\$ 1,746,371	

See Independent Auditor's Report.

Pulaski County Public Library District  
Schedule of Proportionate Share of the Net Pension Liability  
For the Years Ended June 30, 2018, 2017, 2016, 2015 and 2014

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Library's proportion of the net pension liability	0.022242%	0.020920%	0.021250%	0.021400%	0.021000%
Library's proportionate share of the net pension liability	\$ 1,301,984	\$ 1,030,197	\$ 913,782	\$ 694,297	\$ 716,227
Library's covered employee payroll	\$ 558,865	\$ 541,408	\$ 500,562	\$ 495,866	\$ 496,240
Library's share of the net pension liability as a percentage of its covered employee payroll	232.97%	190.28%	182.55%	140.02%	144.33%
Plan fiduciary net position as a percentage of the total pension liability	53.32%	55.50%	59.97%	66.80%	61.22%

Notes:

Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

See the following Schedule of Changes in Benefits and Assumptions- Pension for any changes during the periods shown above.

The amounts presented for each fiscal year were determined (measured) as of the previous fiscal year.

See Independent Auditor's Report.

Pulaski County Public Library District  
Schedule of Pension Contributions  
For the Years Ended June 30, 2018, 2017, 2016, 2015, 2014 and 2013

	2018	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 81,049	\$ 75,526	\$ 62,169	\$ 63,223	\$ 68,402	\$ 62,226
Contributions relative to contractually required employer contribution	<u>\$ 81,049</u>	<u>\$ 75,526</u>	<u>\$ 62,169</u>	<u>\$ 63,223</u>	<u>\$ 68,402</u>	<u>\$ 62,226</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Company's covered employee payroll	\$ 558,865	\$ 541,408	\$ 500,562	\$ 495,866	\$ 496,240	\$ 493,682
Employer contributions as a percentage of covered-employee payroll	14.50%	13.95%	12.42%	12.75%	13.78%	12.60%

Notes:

Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

See the following Schedule of Changes in Benefits and Assumptions- Pension for any changes during the periods shown above.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

See Independent Auditor's Report.



**PULASKI COUNTY PUBLIC LIBRARY DISTRICT  
SCHEDULE OF CHANGES IN BENEFITS AND ASSUMPTIONS- PENSION  
FOR THE YEAR ENDED JUNE 30, 2018**

**County Employee Retirement System**

*Changes of benefit terms* – None

*Changes in assumptions* – The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of June 30, listed below:

2017

- The assumed investment rate of return was decreased from 7.50% to 6.25%
- The assumed rate of inflation was reduced from 3.25% to 2.30%
- The assumed rate of wage inflation decreased by 0.95%
- The payroll growth assumption was reduced from 4.00% to 2.00%

2015

- The assumed investment rate of return was decreased from 7.75% to 7.50%
- The assumed rate of inflation was reduced from 3.50% to 3.25%
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%
- The payroll growth assumption was reduced from 4.50% to 4.00%
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback one year for females). For disabled members the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (setback four year for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- Assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

*Method and assumptions used in calculations of actuarially determined contributions* – The actuarially determined contributions rates are determined on an annual basis beginning with the fiscal years ended 2017, determined as of June 30, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2014 to a closed 28-year period. The following actuarial methods and assumptions were used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level of percentage of payroll
Remaining amortization period	28 years
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary increase	4.00%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

See Independent Auditor's Report.

Pulaski County Public Library District  
Schedule of Proportionate Share of the Net OPEB Liability  
For the Years Ended June 30, 2018, and 2017

	<u>2018</u>	<u>2017</u>
Library's proportion of the net OPEB liability	0.022242%	0.020920%
Library's proportionate share of the net OPEB liability	\$ 447,128	\$ 350,713
Library's covered employee payroll	\$ 558,865	\$ 541,408
Library's share of the net OPEB liability as a percentage of its covered employee payroll	80.01%	64.78%
Plan fiduciary net position as a percentage of the total OPEB liability	52.39%	55.24%

Notes:

Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

See the following Schedule of Changes in Benefits and Assumptions for any changes during the periods shown above.

The amounts presented for each fiscal year were determined (measured) as of the previous fiscal year.

See Independent Auditor's Report.

Pulaski County Public Library District  
Schedule of OPEB Contributions  
For the Years Ended June 30, 2018, and 2017

	<u>2018</u>	<u>2017</u>
Contractually required employer contribution	\$ 26,307	\$ 25,609
Contributions relative to contractually required employer contribution	<u>\$ 26,307</u>	<u>\$ 25,609</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Company's covered employee payroll	\$ 558,865	\$ 541,408
Employer contributions as a percentage of covered-employee payroll	4.71%	4.73%

Notes:

Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

See the following Schedule of Changes in Benefits and Assumptions- OPEB for any changes during the periods shown above.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the pension fund of CERS. The above contributions only include those contributions allocated directly to the CERS insurance fund.

See Independent Auditor's Report.

**PULASKI COUNTY PUBLIC LIBRARY DISTRICT  
SCHEDULE OF CHANGES IN BENEFITS AND ASSUMPTIONS- OPEB  
FOR THE YEAR ENDED JUNE 30, 2018**

**County Employee Retirement System**

*Changes of benefit terms* – None

*Changes in assumptions* – The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of June 30, listed below:

2017

- The assumed investment rate of return was decreased from 7.50% to 6.25%
- The assumed rate of inflation was reduced from 3.25% to 2.30%
- The assumed rate of wage inflation decreased by 0.95%
- The payroll growth assumption was reduced from 4.00% to 2.00%
- The single discount rate changed from 6.89% to 5.84%

*Method and assumptions used in calculations of actuarially determined contributions* – The actuarially determined contributions rates are determined on an annual basis beginning with the fiscal years ended 2017, determined as of June 30, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2014 to a closed 28-year period. The following actuarial methods and assumptions were used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level of percentage of payroll
Remaining amortization period	28 years
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary increase	4.00%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

See Independent Auditor's Report.