

JESSAMINE COUNTY PUBLIC LIBRARY

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
Jessamine Public Library

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of the Jessamine County Public 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Jessamine County Public Library, 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 28 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2018 on our consideration of the Jessamine County Public Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Jessamine County Public Library's internal control over financial reporting and compliance.

Craft, Noble & Company, PLLC

Craft, Noble & Company, PLLC
Richmond, Kentucky
August 28, 2018

JESSAMINE COUNTY PUBLIC LIBRARY MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis (MD&A) offers the readers of the Jessamine County Public Library's financial statements this narrative overview and analysis of the financial activities of the Jessamine County Public Library for the fiscal year ended June 30, 2018.

The Jessamine County Public Library, (hereafter described as "the Library" located in Nicholasville, Kentucky, has a central location in the county of approximately 53,375 residents. Jessamine County has a long history of library support, starting with the Acme Book Club in 1896 and continuing through six library buildings of increasing size to the current 41,000 square foot facility.

The Library, which has approximately 40,000 registered customers, offers weekly program for infants, toddlers, and preschoolers as well as biweekly teen programs and adult programs. The collection includes books (both print and downloadable from the internet), DVD's, online streaming movies, audio books (on CD and downloadable from the Internet), music (on CD and downloadable from the Internet), electronic databases, and public computers. The Library has outreach services for the homebound, day care centers, and after-school programs.

A five-member Board of Trustees governs the Jessamine County Public Library. The Board is appointed by the County Judge Executive and approved by a vote of the elected fiscal court magistrates. The Board is solely responsible for managing the assets of the district

The primary source of revenue for the Library is property and other local taxes.

Highlights

- The Library's assets exceeded its liabilities by \$8,499,588 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$8,579,524 as restated for adoption of GASB 75.
- Total net position is comprised of the following:
 - Capital assets of \$12,601,586 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - Unrestricted net position of \$701,717 represent the portion available to maintain the Library's continuing obligations to the citizens and creditors.
- The Library's governmental funds reported a total ending fund balance of \$3,432,964 this year. This compares to the prior year ending fund balance of \$2,968,071 showing an increase of \$464,893 during the current year. This increase includes general fund operating revenues of \$4,965,758.
- At the end of the current fiscal year, the fund balance for the General Fund was \$3,432,964 or 76.3% of total General Fund expenditures.

Overview of the Financial Statements

The Library's annual report includes two governmental financial statements. These statements provide both long-term and short-term information about the Library's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination of reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Position*. This is the government-wide statement of position presenting information that includes all of the Library's assets and liabilities, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Library as a whole is improving or deteriorating. Evaluation of the overall economic health of the Library would extend to other non-financial factors such as diversification of the taxpayer base or the condition of the Library infrastructure in addition to the financial information provided in this report.

Overview of the Financial Statements (Continued)

The second of these government-wide statements is the *Statement of Activities*, which reports how the Library's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the Library's activities or functions on revenues provided by the Library's taxpayers.

Both government-wide financial statements distinguish governmental activities of the Library that are principally supported by taxes and intergovernmental revenues, such as grants, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, capital projects, and debt servicing. The Library does not have Business-type or Fiduciary activities.

The Library's financial reporting includes the funds of the Library (primary government) and organizations for which the Library is accountable (component units). Most of these legally separate organizations operate like Library departments, serve as financing vehicles for Library services (revenue bond issuers), or are governed by a board of trustees wholly comprised the Library's director and board members. The Library does not have any component units at this time.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Library uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the Library's most significant funds rather than the Library as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. Individual fund data for non-major funds is provided in the form of combining statements in a later section of this report.

The Library has the following types of funds:

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements. These statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financial requirements of governmental programs and the commitment of spendable resources for the short-term.

Since the government-wide focus includes the long-term view, comparison between these two perspectives may provide insight into the long-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

Budgetary comparison statements are included in the required supplemental section for the general fund. These statements and schedules demonstrate compliance with the Library's adopted and final revised budget.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Financial Analysis of the Jessamine County Public Library as a Whole

As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the Library as a whole.

The Library's net position at fiscal year-end is \$8,499,588. This is a decrease of \$79,936 from last year's net position of \$8,579,524 (as restated). The table on the following page provides a summary of the Library's net position

Financial Analysis of the Jessamine County Public Library as a Whole (Continued)

	Government Activities		Variance	Percent Change
	June 30, 2018	June 30, 2017		
Assets				
Current and other Assets	\$ 3,466,467	\$ 3,015,145	\$ 451,322	14.97%
Capital Assets	12,601,586	13,013,652	(412,066)	-3.17%
Total Assets	<u>16,068,053</u>	<u>16,028,797</u>	<u>39,256</u>	<u>0.24%</u>
Deferred Outflows	1,301,683	511,677	790,006	154.40%
Liabilities				
Current Liabilities	279,804	278,881	923	0.33%
Long-Term Liabilities	8,287,702	7,682,069	605,633	7.88%
Total Liabilities	<u>8,567,506</u>	<u>7,960,950</u>	<u>606,556</u>	<u>7.62%</u>
Deferred Inflows	302,642	-	302,642	100.00%
Net Position				
Invested in Capital Assets	7,797,871	7,980,109	(182,238)	-2.28%
Unrestricted	701,717	599,415	102,302	17.07%
Total Net Position	<u>\$ 8,499,588</u>	<u>\$ 8,579,524</u>	<u>\$ (79,936)</u>	<u>-0.93%</u>

The Library reported positive balances in net position for governmental activities. Net position decreased \$83,988 for governmental activities. The Library's overall financial position increased due to planned financing proceeds for the expansion and increased revenues.

Tax revenues were not significantly affected by the slowed economy because of the phenomenal growth of Jessamine County. Although, state law restricts the yearly tax revenue to a 4% increase over the previous year's income, the law does not restrict the income from new growth. It is this new growth income that shields the Library from the detrimental effects of low-performance investments and artificial tax ceilings. The total tax revenue for the year grew by 7.79%.

Governmental expenditures during the current fiscal year were \$464,893 lower than the revenues and government-wide expenses were \$83,988 more than government-wide revenues.

Comparative data is accumulated and presented to assist analysis. The following table provides a summary of the Library's changes in net position:

	Government Activities		Variance	Percent Change
	June 30, 2018	June 30, 2017		
Revenue				
Book fines and copy fees	\$ 56,322	\$ 64,720	\$ (8,398)	-12.98%
Operating Grants, etc.	25,317	19,784	5,533	27.97%
General Revenues				
Property Taxes	4,859,909	4,508,724	351,185	7.79%
Interest and Investment	19,210	13,074	6,136	46.93%
Other Revenues	5,000	14,687	(9,687)	-65.96%
Total Revenues	<u>4,965,758</u>	<u>4,620,989</u>	<u>344,769</u>	<u>7.46%</u>
Total Expenses	<u>\$ 5,049,746</u>	<u>\$ 4,409,647</u>	<u>\$ 640,099</u>	<u>14.52%</u>
Change in Net Assets	(83,988)	211,342	(295,330)	-139.74%
Net Position beginning of year	8,579,524	8,368,182	211,342	2.53%
Net Position end of year	<u>\$ 8,495,536</u>	<u>\$ 8,579,524</u>	<u>\$ (83,988)</u>	<u>-0.98%</u>

Financial Analysis of the Jessamine County Public Library as a Whole (Continued)

As mentioned above and discussed earlier, the Library is heavily reliant on property taxes to support governmental operations. Property taxes provided 97.9% and 97.6% of the Library's revenues in fiscal years 2018 and 2017.

Financial Analysis of the Library's Funds

Governmental funds

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of \$3,432,964.

Of this year-end total, approximately \$1,968,439 is unassigned indicating availability for continuing the Library's service requirements. Non-spendable funds consist of \$42,534 for inventories and other current assets and a stabilization amount of \$1,421,991. The total ending fund balances of governmental funds show an increase of \$464,893 from the prior year.

General Fund Budgetary Highlights

The General Fund operating budget for fiscal year 2018 was originally \$4,773,046. The ending budget was the increased from the previous year's amended budget. The General Fund budget complied with financial policies approved by the Board of Trustees and maintained the core Library services.

Capital Assets and Debt Administration

The Library's investment in capital assets for governmental activities as of June 30, 2018, was \$7,797,871. The total decrease in this net investment was \$182,238 made up of \$82,514 in new additions, less \$131,342 in surplus capital assets and \$608,981 in depreciation. Capital assets comprise 78.3% for the Library's total assets.

Long-term Debt

The Library reduced long-term debt by a reduction of bond long-term debt with the payments of \$229,827 note payments. This lowered the long-term debt to \$4,803,715 down from \$5,033,543 in the prior year.

Pension Liability

The Library's overall net pension liability increased by \$592,896. Net pension liability is \$2,746,515, with related deferred outflows of \$1,037,468 and related deferred inflows of \$253,256.

Economic Factors and Next Year's Budget

The outlook for the Jessamine County Public Library next year is for modest growth amidst the current period of financial instability in the United States. In general, any major swings in the overall economy have a smaller effect on the Library due to the diversity of the local economy. In order to facilitate services while preparing for economic uncertainty, the Board of Trustee allocated the surplus, noted above, into a restricted funds for Budget Stabilization. The Budget Stabilization monies will fund library services expenditures in the event of a budget shortfall.

Contacting the Jessamine County Public Library's Financial Management

This financial report is designed to provide a general overview of the Library finances, comply with finance-related laws and regulations, and demonstrate the Jessamine County Public Library's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the Library at the following address:

Dr. Ron Critchfield, Executive Director
Jessamine County Public Library
600 South Main Street
Nicholasville, Kentucky 40356

Jessamine County Public Library
Statement of Net Position
June 30, 2018

Assets	
Cash unrestricted	\$ 1,911,766
Investments	72,098
Accounts receivable	39,796
Prepaid expenses	16,451
Inventory	4,365
Investments reserved	1,421,991
Fixed Assets:	
Depreciable buildings, property and equipment, net of depreciation	9,343,256
Non depreciable land, library collection	3,258,330
Total Fixed Assets	<u>12,601,586</u>
Total Assets	<u>\$ 16,068,053</u>
Deferred Outflows of Resources:	
Subsequent pension contributions	\$ 240,645
Deferred outflows related to pensions	855,792
Deferred outflows related to OPEB	<u>205,246</u>
Total Deferred Outflows of Resources	<u>\$ 1,301,683</u>
Liabilities:	
Accounts payable	\$ 15,656
Payroll liabilities	13,795
Accrued interest payable	7,042
Current portion of compensated absences	5,000
Current portion of notes payable	238,311
Long-Term Obligations:	
Compensated absences	32,529
Notes payable	4,565,404
Net pension liability	2,746,515
Net OPEB liability	<u>943,254</u>
Total Liabilities	<u>\$ 8,567,506</u>
Deferred Inflows of Resources:	
Deferred inflows related to pensions	\$ 253,256
Deferred inflows related to OPEB	<u>49,386</u>
Total Deferred Inflows of Resources	<u>\$ 302,642</u>
Net Position:	
Invested in fixed assets	7,797,871
Unrestricted	<u>701,717</u>
Total Net Position	<u>\$ 8,499,588</u>

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

Jessamine County Public Library
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>Net (Expense) Revenue and Changes in Net Position</u>
				<u>Primary Government</u>
Governmental activities				
Cultural and recreational	\$ (5,045,694)	56,322	25,317	\$ (4,964,055)
General Revenues:				
Taxing district revenues				\$ 4,859,909
Interest income				19,210
Other income				5,000
Total general revenues				<u>4,884,119</u>
Change in net position				(79,936)
Net position - beginning				<u>8,579,524</u>
Net position - ending				<u><u>\$ 8,499,588</u></u>

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

Jessamine County Public Library
Balance Sheet
Governmental Fund
June 30, 2018

	Governmental Fund
Assets	
Cash unrestricted	\$ 1,911,766
Investments	72,098
Accounts receivable	39,796
Prepaid expenses	16,451
Inventory	4,365
Investments-reserved	1,421,991
Total Assets	<u>\$ 3,466,467</u>
Liabilities	
Accounts payable	\$ 15,656
Payroll liabilities	13,795
Total Liabilities	<u>\$ 29,451</u>
Fund Balances	
Nonspendable	\$ 20,816
Assigned- contingency fund	1,421,991
Unassigned	1,994,209
Total Fund Balances	<u>\$ 3,437,016</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	\$ 12,601,586
Certain liabilities (including notes payable and compensated absences) are not due and payable in the current period and therefore, are not reported in the fund	(4,848,286)
Deferred outflows, inflows, net pension, and net OPEB liability 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	<u>(2,690,728)</u>
Net position of governmental activities	<u>\$ 8,499,588</u>

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

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

	Governmental Fund
Revenues	
Taxing district revenues	\$ 4,859,909
Grant revenues	23,192
Gift income	2,125
Charges for services and fines	56,322
Investment income	19,210
Other revenues	5,000
	<hr/>
Total Revenues	4,965,758
Expenditures	
Personnel expenses	2,299,018
Library materials	885,499
Utilities	118,799
Repairs and maintenance	152,705
Contract labor	50,938
Computer maintenance	215,165
Programming	137,330
Office supplies	55,671
Gifts	566
Public relations	66,948
Other staff expenses	12,537
Continuing education	54,464
	<hr/>
Total Current Expenditures	4,049,640
Operating capital outlays	82,514
Debt Service	
Principal	229,827
Interest	138,884
	<hr/>
Total Expenditures	4,500,865
	<hr/>
Net change in fund balance	464,893
Fund balance - beginning adjusted	2,968,071
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Fund balance - ending	\$ 3,432,964
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The accompanying notes are an integral part of these financial statements.

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

Reconciliation to the Statement of Activities:

Net Change in Fund Balance - Governmental Fund	\$	464,893
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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		82,514
Depreciation Expense		(608,981)
Net Loss on Disposal of Equipment		(23,980)
Collection Adjustment		138,383

Governmental Funds report pension and OPEB related expenses of \$221,991		
However, the Statement of Net Position reports pension and OPEB expenses calculated pursuant to GASB 68 and 75 of \$580,901		(358,910)

Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Position		229,827
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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 and accrued interest expense.		(3,682)
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Change in Net Position of Governmental Activities	\$	(79,936)
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The accompanying notes are an integral part of these financial statements.

JESSAMINE COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Jessamine County Public Library (the "Library") is a special library taxing district established under KRS 173. The Library was established in 1896 through trust funds of Sarah Rice Withers. As a taxing district, the Library provides access to quality materials, services, programs and technology to enrich the community with ideas, information, and cultural opportunities. The Library focuses its resources on current topics and titles, life-long learning, and services to pre-school children.

Basis of Presentation

The financial statements of the Jessamine County Public Library District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Library's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. 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 this 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. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

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.

JESSAMINE COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Land, buildings, 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 considers the value of books and materials as a major asset and shows it on the statement of net position. The value of these materials has been estimated using a five-year rolling average of units purchases into dollars spent.

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 \$608,981.

Fund Balance

The Library has 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	\$ 20,816
Assigned	\$ 1,421,991
Unassigned	\$ 1,994,209

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

JESSAMINE COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System 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. 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	\$	832,090
Category 2	\$	2,507,334
Category 3	\$	157,849

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, investments are held in certificates of deposit and money markets.

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.

JESSAMINE COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 – INVESTMENTS (CONTINUED)

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	\$ 1,069,068	\$ -	\$ 1,069,068	\$ -
Money market accounts	<u>425,021</u>	<u>-</u>	<u>425,021</u>	<u>-</u>
Total	<u>\$ 1,494,089</u>	<u>\$ -</u>	<u>\$ 1,494,089</u>	<u>\$ -</u>

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

NOTE 5 – CAPITAL ASSETS

The Library purchases various educational materials each year, some of which increase in value and some that depreciate. Rather than attempting to depreciate each unit, the Library values these materials based on a five-year rolling average. The average takes the costs of library materials over the most recent five-year period. During the year, the Library thoroughly reviewed and evaluated the collection resulting in an increase in the value of the collection of \$138,383.

JESSAMINE COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5 – CAPITAL ASSETS (CONTINUED)

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

<u>Governmental Activities</u>	<u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2018</u>
Land	\$ 1,111,673	\$ -	\$ -	\$ 1,111,673
Library collection	2,008,274	138,383	-	2,146,657
Buildings & improvements	10,693,182	20,077	-	10,713,259
Furniture and equipment	1,581,113	7,179	-	1,588,292
Software	275,658			275,658
Electronic equipment	637,378	55,256	(131,342)	561,292
Total at historical cost	<u>16,307,278</u>	<u>220,895</u>	<u>(131,342)</u>	<u>16,396,831</u>
Less: Accumulated Depreciation	(3,293,626)	(608,981)	107,362	(3,795,245)
Capital assets – net	<u>\$ 13,013,652</u>	<u>\$ (388,086)</u>	<u>\$ (23,980)</u>	<u>\$ 12,601,586</u>

NOTE 6 – PROPERTY TAX CALENDAR

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

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

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

The assessed tax rates during the audit period were 11.10 cents per each \$100 worth of real property, 19.52 cents per each \$100 worth of personal property, and 4.90 cents per each \$100 worth of vehicles assessed in Jessamine County.

NOTE 7 – COMPENSATED ABSENCES

It is the Library's policy to compensate employees for certain absences not used at the end of their employment. As of June 30, 2018, the liability for these absences was \$37,529 and has been included in the personnel expenses. Such liability is recorded in the government-wide financial statements.

NOTE 8 – LONG-TERM DEBT

In July 2014, the Library entered into an agreement with Kentucky Bank for financing the remodel of the existing Library. The loan amount is for \$5,200,000 and the permanent refinancing payments began in October 2016. Repayment of the loan is a fixed rate of 2.78% for the first 8 years, and then the loan converts to an adjustable rate loan, tied to the 5-year constant maturity of the Treasury rate plus 1.33% for the remaining 10 years. The future debt service requirement for the loan are summarized on the next page.

JESSAMINE COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 8 – LONG-TERM DEBT (CONTINUED)

	Principal	Interest	Total
June 2019	\$ 238,311	\$ 130,400	\$ 368,711
June 2020	245,021	123,690	368,711
June 2021	251,921	116,790	368,711
June 2022	259,014	109,697	368,711
June 2023	266,307	102,404	368,711
June 2024-2028	1,449,324	394,230	1,843,554
June 2029-2033	1,664,036	179,518	1,843,554
June 2034-2036	429,781	4,088	433,869
Total	<u>\$ 4,803,715</u>	<u>\$ 1,160,817</u>	<u>\$ 5,964,532</u>

The changes in long-term obligations are as follows:

	Balance June 30, 2017	Additions	Retirements	Balance June 30, 2018
Loans payable	\$ 5,033,543	\$ -	\$ 229,828	\$ 4,803,715
Compensated absences	40,889	-	3,360	37,529
Net pension liability	2,153,619	592,896	-	2,746,515
Net OPEB liability	685,825	257,429	-	943,254

NOTE 9 – OPERATING LEASES

In the fiscal year 2016, the Library entered into a lease agreement with Hewlett Packard to finance thirty-five public computers. The lease was for 36 months and payments are \$940.07 monthly through January 2019. The Library entered into another operating lease with Hewlett Packard during the year ended June 30, 2017, for 11 computers with a monthly payment of \$327.99 for 36 months. They also have an operating lease for 2 copiers. The lease, which is for 60 months, requires lease payments of \$968.08. Maintenance and copy usage fees are charged separately. During the year ending June 30, 2018 rent payments of \$20,943 were paid. Below is a list of the future minimum lease payments:

Year ending June 30,	Lease Payments
2019	\$ 19,482
2020	10,605
2021	8,965
2022	8,965
Total	<u>\$ 48,017</u>

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/>.

JESSAMINE COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – RETIREMENT PLAN (CONTINUED)

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

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 follows on the next page:

JESSAMINE COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – RETIREMENT PLAN (CONTINUED)

Library's proportionate share of the CERS net pension liability	\$ 2,746,515
Commonwealth's proportionate share of the CERS net pension liability associated with the Library	<u>5,850,560,928</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 0.046920% percent.

For the year ended June 30, 2018, the Library recognized pension expense of \$473,413 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual experience	\$ 3,406	\$ 69,715
Changes of assumptions	506,782	-
Difference between projected and actual earnings on plan investments	217,511	183,541
Changes in proportion and differences between Company contributions and proportionate share of contributions	128,092	-
Library contributions subsequent to the measurement date	<u>181,676</u>	<u>-</u>
Total	<u><u>\$ 1,037,467</u></u>	<u><u>\$ 253,256</u></u>

The \$181,676 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:

Year ending June 30,	
2019	\$ 273,880
2020	252,809
2021	111,112
2022	(35,266)

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

JESSAMINE COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – RETIREMENT PLAN (CONTINUED)

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	100.00%	6.56%

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 table on the next page 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.

JESSAMINE COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – RETIREMENT PLAN (CONTINUED)

	Discount rate	Library's proportionate share of net pension
1% decrease	5.25%	\$ 3,463,769
Current discount rate	6.25%	\$ 2,746,515
1% increase	7.25%	\$ 2,146,275

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	\$ 943,254
Commonwealth's proportionate share of the CERS net OPEB liability associated with the Library	<u>2,009,398,800</u>
	<u><u>\$ 2,010,342,054</u></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 0.046920% percent.

For the year ended June 30, 2018, the Library recognized OPEB expense of \$107,488 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual experience	\$ -	\$ 2,620
Changes of assumptions	205,246	-
Difference between projected and actual earnings on Plan investments	-	44,578
Changes in proportion and differences between Company contributions and proportionate share of contributions	-	2,188
Library contributions subsequent to the measurement date	<u>58,969</u>	<u>-</u>
Total	<u><u>\$ 264,215</u></u>	<u><u>\$ 49,386</u></u>

JESSAMINE COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – RETIREMENT PLAN (CONTINUED)

The \$58,969 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	\$ 26,817
2020	26,817
2021	26,817
2022	26,817
2023	37,962
2024 and thereafter	10,630

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.

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.

JESSAMINE COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – RETIREMENT PLAN (CONTINUED)

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	100.00%	6.56%

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%	\$ 1,200,236
Current discount rate	5.84%	\$ 943,254
1% increase	6.84%	\$ 729,401

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.

	Library's proportionate share of net OPEB liability
1% decrease	\$ 723,523
Current healthcare cost trend rate	\$ 943,254
1% increase	\$ 1,228,888

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.

JESSAMINE COUNTY PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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 \$685,825 reduction in beginning net position on the Statement of Activities.

Ending Net Position per 2017 Audit Statement of Activities	\$ 9,265,349
Adjustment due to implementation of GASB 75	<u>(685,825)</u>
Restated beginning Net Position on Statement of Activities	<u><u>\$ 8,579,524</u></u>

NOTE 13 – SUBSEQUENT EVENTS

Management of the Organization has considered subsequent events through August 28, 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
Jessamine County Public Library
Nicholasville, 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 Jessamine County Public Library, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Jessamine County Public Library's basic financial statements, and have issued our report thereon dated August 28, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Jessamine County Public Library's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Jessamine County Public Library's internal control. Accordingly, we do not express an opinion on the effectiveness of Jessamine County Public Library's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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 that we consider to be significant deficiencies (2018-1).

Compliance and Other Matters

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



Jessamine County Public Library's Response to Findings

Jessamine County Public Library's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Jessamine County Public Library's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Craft, Noble & Company, PLLC

Craft, Noble & Company, PLLC
Richmond, Kentucky
August 28, 2018

JESSAMINE COUNTY PUBLIC LIBRARY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018

FINDINGS- FINANCIAL STATEMENT AUDIT

2018-1

Criteria:

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

Condition:

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

Cause:

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

Effect:

The Library did not have effective procedures in place to ensure that all accruals and adjustments that are needed have been appropriately recorded. Additionally, the Library's staff or contracted personnel did not collectively possess a full working knowledge of generally accepted accounting principles.

Organization Response and Corrective Action Plan:

Jessamine County Public Library's management is aware of the cause of these errors. The internal controls in question are immaterial to the transparent presentation of the library's financial position. The library has consulted with an external Certified Public Accountant regarding the implementation of complex accounting standards.

We did not audit the Library's response and, accordingly, we express no opinion on it.

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

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance
Revenues				
Taxing district revenues	\$ 4,731,240	\$ 4,731,239	\$ 4,859,909	\$ 128,670
Grant revenues and state aid	20,000	20,000	23,192	3,192
Gift income	3,500	3,500	2,125	(1,375)
Charges for service and fines	47,000	47,000	56,322	9,322
Investment income	15,000	15,000	19,210	4,210
Other revenues	2,300	2,300	5,000	2,700
Total Revenues	4,819,040	4,819,039	4,965,758	146,719
Expenditures				
Current				
Personnel expenses	2,403,546	2,403,548	2,299,018	104,530
Library materials	932,500	932,500	885,499	47,001
Utilities	137,000	137,000	118,799	18,201
Repairs and maintenance	162,000	162,000	152,705	9,295
Contract labor	77,000	77,000	50,938	26,062
Computer maintenance	224,500	224,500	215,165	9,335
Programming	136,500	136,800	137,330	(530)
Office supplies	59,000	59,000	55,671	3,329
Gifts	1,500	1,500	566	934
Public relations	68,500	69,500	66,948	2,552
Other staff expenses	32,500	32,500	12,537	19,963
Continuing education	64,500	64,500	54,464	10,036
Total Current Expenditures	4,299,046	4,300,348	4,049,640	250,708
Operating capital outlays	105,000	105,000	82,514	22,486
Debt Service				
Debt service on loan	369,000	369,000	368,711	289
Total Expenditures	4,773,046	4,774,348	4,500,865	273,483
Net change in fund balance	45,994	44,691	464,893	420,202
Fund balance - beginning adjusted	-	-	2,968,071	
Fund balance - ending	\$ 45,994	\$ 44,691	\$ 3,432,964	

See Independent Auditor's Report.

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

	2018	2017	2016	2015	2014
Library's proportion of the net pension liability	0.046920%	0.043740%	0.042300%	0.040682%	0.006183%
Library's proportionate share of the net pension liability	\$ 2,746,515	\$ 2,153,619	\$ 1,818,883	\$ 1,320,000	\$ 1,493,000
Library's covered employee payroll	\$ 1,254,670	\$ 1,142,395	\$ 1,043,436	\$ 988,958	\$ 933,312
Library's share of the net pension liability as a percentage of its covered employee payroll	218.90%	188.52%	174.32%	133.47%	159.97%
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 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.

Jessamine County Public Library
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	\$ 181,676	\$ 159,364	\$ 129,595	\$ 126,092	\$ 128,238	\$ 109,644
Contributions relative to contractually required employer contribution	<u>\$ 181,676</u>	<u>\$ 159,364</u>	<u>\$ 129,595</u>	<u>\$ 126,092</u>	<u>\$ 128,238</u>	<u>\$ 109,644</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Company's covered employee payroll	\$ 1,254,670	\$ 1,142,395	\$ 1,043,436	\$ 988,958	\$ 933,312	\$ 970,589
Employer contributions as a percentage of covered-employee payroll	14.48%	13.95%	12.42%	12.75%	13.74%	11.30%

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.

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.

**JESSAMINE COUNTY PUBLIC LIBRARY
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.

Jessamine County Public Library
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	0.046920%	0.043740%
Library's proportionate share of the net OPEB liability	\$ 943,254	\$ 739,860
Library's covered employee payroll	\$ 1,254,670	\$ 1,142,395
Library's share of the net OPEB liability as a percentage of its covered employee payroll	75.18%	64.76%
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.

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

	<u>2018</u>	<u>2017</u>
Contractually required employer contribution	\$ 58,969	\$ 54,035
Contributions relative to contractually required employer contribution	<u>\$ 58,969</u>	<u>\$ 54,035</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Company's covered employee payroll	\$ 1,254,670	\$ 1,142,395
Employer contributions as a percentage of covered-employee payroll	4.70%	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.

**JESSAMINE COUNTY PUBLIC LIBRARY
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.