



Palos Verdes Library District

Annual Financial Report

For the Fiscal Year Ended June 30, 2018



**Palos Verdes Library District
Board of Trustees as of June 30, 2018**

Name	Title	Elected/ Appointed	Current Term
James D. Moore	President	Elected	2019
Debby Stegura	Vice President	Elected	2019
Kay C. Jue	Secretary	Elected	2020
Brian Campbell	Trustee	Elected	2019
Kingston Wong	Trustee	Elected	2020

**Jennifer Addington, District Director
Palos Verdes Library District
701 Silver Spur Road
Rolling Hills Estates, California 90274
(310) 377-9584 www.pvld.org**

**Palos Verdes Library District
Annual Financial Report
For the Fiscal Year Ended June 30, 2018**

Table of Contents

	<u>Page No.</u>
Table of Contents	i
 Financial Section	
Independent Auditor’s Report	1-2
Management’s Discussion and Analysis	3-6
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	7
Statement of Activities	8
Fund Financial Statements:	
Balance Sheet — Governmental Fund	9
Reconciliation of the Balance Sheet of Governmental Type Fund to the Statement of Net Position	10
Statement of Revenues, Expenditures, and Changes in Fund Balance — Governmental Fund	11
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Type Fund to the Statement of Activities	12
Notes to the Basic Financial Statements	13-30
 Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	31
Notes to Required Supplementary Information	31
Schedules of the District’s Proportionate Share of the Net Pension Liability	32
Schedules of Pension Plan Contributions	33
 Report on Internal Controls and Compliance	
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 <i>Government Auditing Standards</i>	34-35

< Page Intentionally Left Blank >

Financial Section



Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA, CGMA
Jonathan P. Abadesco, CPA
Andy Beck, CPA

Fedak & Brown LLP

Certified Public Accountants

Cypress Office:
6081 Orange Avenue
Cypress, California 90630
(657) 214-2307
FAX (714) 527-9154

Riverside Office:
1945 Chicago Avenue, Suite C-1
Riverside, California 92507
(951) 783-9149

Independent Auditor's Report

Board of Library Trustees
Palos Verdes Library District
Palos Verdes, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Palos Verdes Library District (District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District'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; and the State Controller's minimum Audit Requirements for California Special Districts. 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 opinions.

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 each major fund of the Palos Verdes Library District as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Emphasis of a Matter

Restatement of Net Position/Fund Balance

As discussed in Note 6 to the financial statements, the District restated net position and fund balance as of and for the year ended June 30, 2017, to accrual additional property taxes receivable and compensated absences, and include additional cash and account payables. 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 on pages 3 through 6 and the required supplementary information on pages 31 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 a report dated October 18, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. That report can be found on pages 34 and 35.

Fedak & Brown LLP

Fedak & Brown LLP

Cypress, California

October 18, 2018

Palos Verdes Library District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

As management of the Palos Verdes Library District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities and performance of the District for the fiscal year ended June 30, 2018. Please read it in conjunction with additional information that we have furnished in the accompanying basic financial statements, which follow this section.

Financial Highlights

- The District's net position decreased 4.4% or \$493,004 from \$11,120,003 to \$10,626,999, in 2018, from continued operations.
- Total revenues from all sources increased by 1.4% or \$121,798 from the prior year primarily due to increases in general revenues of \$197,411; which was offset by a decrease in program revenues of \$75,643.
- Total expenses decreased 2.3% or \$222,840 from the prior year primarily due to a decrease in salaries and benefits of \$281,994; which was offset by an increase in materials and services of \$66,929.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies. The Statement of Net Position include all of the District's investments in resources (assets) and deferred outflows of resources and the obligations to creditors (liabilities) and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Activities. These statements measure the success of the District's operations over the past year and can be used to determine the District's net reserves and credit worthiness.

Government-wide Financial Statements

Statement of Net Position and Statement of Activities

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in them. Think of the District's net position – the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the District's property tax base and the types of grants the District applies for to assess the *overall health* of the District.

Palos Verdes Library District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2018

Governmental Funds Financial Statements

Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 13 through 30.

Condensed Statements of Net Position

	<u>2018</u>	<u>As Restated 2017</u>	<u>Change</u>
Assets:			
Assets	\$ 6,408,468	6,137,814	270,654
Capital assets, net	<u>8,433,211</u>	<u>8,987,453</u>	<u>(554,242)</u>
Total assets	<u>14,841,679</u>	<u>15,125,267</u>	<u>(283,588)</u>
Deferred outflows of resources	<u>1,741,230</u>	<u>1,585,347</u>	<u>155,883</u>
Total deferred outflows of resources	<u>1,741,230</u>	<u>1,585,347</u>	<u>155,883</u>
Liabilities:			
Liabilities	<u>5,681,310</u>	<u>5,075,406</u>	<u>605,904</u>
Total liabilities	<u>5,681,310</u>	<u>5,075,406</u>	<u>605,904</u>
Deferred inflows of resources	<u>274,600</u>	<u>515,205</u>	<u>(240,605)</u>
Total deferred inflows of resources	<u>274,600</u>	<u>515,205</u>	<u>(240,605)</u>
Net position:			
Net investment in capital assets	8,433,211	8,987,453	(554,242)
Restricted	-	18,594	(18,594)
Unrestricted	<u>2,193,788</u>	<u>2,113,956</u>	<u>79,832</u>
Total net position	<u>\$ 10,626,999</u>	<u>11,120,003</u>	<u>(493,004)</u>

Palos Verdes Library District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2018

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by \$10,626,999 as of June 30, 2018.

A portion of the District's net position (79.4%) reflects its investment in capital assets (net of accumulated depreciation); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to operate the library; consequently, these assets are *not* available for future spending.

At the end of fiscal year 2018, the District shows a positive balance in its unrestricted net position of \$2,193,788 that may be utilized in future years.

Condensed Statements of Activities

<i>Governmental Activities:</i>	<u>2018</u>	<u>As Restated 2017</u>	<u>Change</u>
Expenses:			
Library operations	\$ 9,501,406	9,724,246	(222,840)
Program revenues	800,231	875,874	(75,643)
General revenues	8,208,171	8,010,730	197,441
Total revenues	<u>9,008,402</u>	<u>8,886,604</u>	<u>121,798</u>
Change in net position	(493,004)	(837,642)	344,638
Net position, beginning of year	<u>11,120,003</u>	<u>11,957,645</u>	<u>(837,642)</u>
Net position, end of year	<u>\$ 10,626,999</u>	<u>11,120,003</u>	<u>(493,004)</u>

The statement of activities shows how the government's net position changes during the fiscal year. In the case of the District, net position decreased by \$493,004 during the fiscal year ended June 30, 2018, from continued operations.

Governmental Fund Financial Analysis

The focus of the District's *governmental fund* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of the government's net resources for spending at the end of the fiscal year.

As of June 30, 2018, the District's General Fund reported a fund balance of \$6,109,446. An amount of \$257,685 constitutes the District's *unassigned fund balance*, which is available for spending or designation at the District's discretion. See Note 8 for further discussion.

Palos Verdes Library District
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2018

General Fund Budgetary Highlights

The actual expenditures at year end were \$248,756 less than budgeted. The variance is primarily due to the effect of actual salaries and benefits, materials and services, and capital outlay less than budget. The actual program revenues at year end were \$3,975 less than budgeted. The variance is primarily due to the net effect of charges for services of \$33,682 more than budget; and operating grants and contributions of \$37,657 less than budget. The General Fund budget to actual comparison schedule can be found on page 31.

Capital Asset Administration

At the end of fiscal year 2018, the District's investment in capital assets amounted to \$8,433,211 (net of accumulated depreciation). This investment in capital assets includes land, building and building improvements, and furniture and fixtures. See Note 3 for further information.

	Balance			Balance
	2017	Additions	Deletions	2018
Capital assets:				
Non-depreciable assets	\$ 855,401	108,634	(102,707)	861,328
Depreciable assets	31,289,522	293,055	-	31,582,577
Accumulated depreciation	(23,157,470)	(853,224)	-	(24,010,694)
Total depreciable asset, net	<u>8,132,052</u>	<u>(560,169)</u>	<u>-</u>	<u>7,571,883</u>
Total capital assets, net	<u>\$ 8,987,453</u>			<u>8,433,211</u>

Conditions Affecting Current Financial Position

Management is unaware of any conditions, which could have a significant impact on the District's current financial position, net position, or operating results in terms of past, present, and future.

Requests for Information

The District's basic financial statements are designed to present users with a general overview of the District's finances and to demonstrate the District's accountability. If you have any questions about the report or need additional information, please contact the Director of Finance and Administration, Julie Mattix, at the Palos Verdes Library District, 701 Silver Spur Road, Rolling Hills Estates, California 90274, or by telephone at (310) 377-9584.

Basic Financial Statements

Palos Verdes Library District
Statement of Net Position
June 30, 2018

	2018
Assets:	
Cash and cash equivalents (note 2)	\$ 5,836,600
Accrued interest receivable	24,699
Property taxes receivable	506,351
Prepaid expenses and deposits	40,818
Capital assets, net (note 3)	8,433,211
Total assets	14,841,679
Deferred outflows of resources:	
Deferred pension outflows (note 5)	1,741,230
Total deferred outflows of resources	1,741,230
Liabilities:	
Accounts payable	66,917
Accrued payroll and related expenses	232,085
Compensated absences (note 4)	312,374
Net pension liability (note 5)	5,069,934
Total liabilities	5,681,310
Deferred inflows of resources:	
Deferred pension inflows (note 5)	274,600
Total deferred inflows of resources	274,600
Net position:	
Net investment in capital assets	8,433,211
Unrestricted (note 7)	2,193,788
Total net position	\$ 10,626,999

See accompanying notes to the basic financial statements

Palos Verdes Library District
Statement of Activities
For the Fiscal Year Ended June 30, 2018

<i>Governmental Activities:</i>	<u>2018</u>
Expenses:	
Library operations:	
Salaries and benefits	\$ 6,715,480
Materials and services	1,932,702
Depreciation	<u>853,224</u>
Total expenses	<u>9,501,406</u>
Program revenues:	
Charges for services	471,582
Operating grants and contributions	<u>328,649</u>
Total program revenues	<u>800,231</u>
Net program expense	<u>8,701,175</u>
General revenues:	
Property taxes	8,142,576
Interest earnings	57,478
Other	<u>8,117</u>
Total general revenues	<u>8,208,171</u>
Changes in net position	(493,004)
Net position, beginning of year	<u>10,909,835</u>
Prior period adjustment (note 6)	<u>210,168</u>
Net position beginning of year, as restated	<u>11,120,003</u>
Net position, end of year	<u>\$ <u>10,626,999</u></u>

See accompanying notes to the basic financial statements

Palos Verdes Library District
Balance Sheet — Governmental Fund
June 30, 2018

	General Fund	Reclassifications & Eliminations	Statement of Net Position
Assets:			
Cash and cash equivalents	\$ 5,836,600	-	5,836,600
Accrued interest receivable	24,699	-	24,699
Property taxes receivable	506,351	-	506,351
Prepaid expenses and deposits	40,818	-	40,818
Capital assets, net	-	8,433,211	8,433,211
Total assets	6,408,468	8,433,211	14,841,679
Deferred outflows of resources:			
Deferred pension outflows	-	1,741,230	1,741,230
Total deferred outflows of resources	-	1,741,230	1,741,230
Total assets	\$ 6,408,468	10,174,441	16,582,909
Liabilities:			
Accounts payable	\$ 66,917	-	66,917
Accrued payroll and related expenses	232,085	-	232,085
Compensated absences	-	312,374	312,374
Net pension liability	-	5,069,934	5,069,934
Total liabilities	299,002	5,382,308	5,681,310
Deferred inflows of resources:			
Deferred pension inflows	-	274,600	274,600
Total deferred inflows of resources	-	274,600	274,600
Fund balance: (note 8)			
Nonspendable	40,818	(40,818)	-
Assigned	5,810,963	(5,810,963)	-
Unassigned	257,685	(257,685)	-
Total fund balance	6,109,466	(6,109,466)	-
Total liabilities and fund balance	\$ 6,408,468		
Net position:			
Net investment in capital assets		\$ 8,433,211	8,433,211
Unrestricted		2,193,788	2,193,788
Total net position		\$ 10,626,999	10,626,999

See accompanying notes to the basic financial statements

Palos Verdes Library District
Reconciliation of the Balance Sheet of Governmental
Type Fund to the Statement of Net Position
June 30, 2018

Reconciliation:

Fund balance of governmental funds	\$	6,109,466
Amount reported for governmental activities in the statement of net position is different because:		
Non-current assets and deferred outflows of resources used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.		
Capital assets, net		8,433,211
Deferred pension outflows		1,741,230
Long-term liabilities and deferred inflows of resources applicable to the District are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities and deferred inflows of resources, both current and long-term, are reported in the statement of net position.		
Compensated absences		(312,374)
Net pension liability		(5,069,934)
Deferred pension inflows		(274,600)
Net position of governmental activities	\$	<u>10,626,999</u>

See accompanying notes to the basic financial statements

Palos Verdes Library District
Statement of Revenues, Expenditures, and Changes in
Fund Balance — Governmental Fund
For the Fiscal Year Ended June 30, 2018

	<u>General Fund</u>	<u>Reclassifications & Eliminations</u>	<u>Statement of Activities</u>
Expenditures/Expenses:			
Library operations:			
Salaries and benefits	\$ 6,418,160	297,320	6,715,480
Materials and services	1,932,702	-	1,932,702
Capital outlay	298,982	(298,982)	-
Depreciation	-	853,224	853,224
Total expenditures/expenses	<u>8,649,844</u>	<u>851,562</u>	<u>9,501,406</u>
Program revenues:			
Charges for services	471,582	-	471,582
Operating grants and contributions	328,649	-	328,649
Total program revenues	<u>800,231</u>	<u>-</u>	<u>800,231</u>
Net program expense			<u>8,701,175</u>
General revenues:			
Property taxes	8,142,576	-	8,142,576
Interest earnings	57,478	-	57,478
Other	8,117	-	8,117
Total general revenues	<u>8,208,171</u>	<u>-</u>	<u>8,208,171</u>
Total revenues	<u>9,008,402</u>	<u>-</u>	
Net changes in fund balance	358,558	(358,558)	-
Changes in net position	-	(493,004)	(493,004)
Fund balance/Net position, beginning of year, as restated	<u>5,750,908</u>	<u>-</u>	<u>11,120,003</u>
Fund balance/Net position, end of year	<u>\$ 6,109,466</u>	<u>-</u>	<u>10,626,999</u>

See accompanying notes to the basic financial statements

Palos Verdes Library District
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balance of Governmental Type Fund to the Statement of Activities
For the Fiscal Year Ended June 30, 2018

Reconciliation:

Net changes in fund balance of governmental fund	\$	358,558
Amount reported for governmental activities in the statement of activities is different because:		
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenses in governmental funds.		
Net change in salaries and benefit		(297,320)
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		
Capital outlay	\$	298,982
Depreciation expense		<u>(853,224)</u>
		<u>(554,242)</u>
Changes in net position of governmental activities	\$	<u><u>(493,004)</u></u>

See accompanying notes to the basic financial statements

Palos Verdes Library District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Palos Verdes Library District (District) was organized on April 14, 1928, under the Education Code of California, Section 27501. The District collaborates with its community to create environments for learning and inspiration, and to share the unique history of the Peninsula. The District is the community's center for discovery, lifelong learning, and personal enrichment for all. The District is governed by an elected, independent Board of Trustees.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Standards Board No. 14 and 39 (an amendment of No. 14). The District is the primary governmental unit based on the foundation of a separately elected governing board. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

B. Basis of Accounting and Measurement Focus

The *basic financial statements* of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources including capital assets, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the District are to be reported in three categories, if applicable: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grants and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items properly not included among program revenues are reported instead as general revenues.

Fund Financial Statements

These statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds. Incorporated into these statements is a schedule to reconcile and explain the differences in net position in the statements of net position presented in the Government-wide Financial Statements. The District has presented its General Fund as its major fund in this statement to meet the qualifications of GASB Statement No. 34.

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

B. Basis of Accounting and Measurement Focus, continued

Fund Financial Statements, continued

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the District are property tax, a voter approved parcel tax, interest earnings, investment revenue, and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

The District reports the following major governmental fund:

General Fund – the government’s primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund when necessary.

C. Financial Reporting

The District’s basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District has adopted the following GASB pronouncements in the current year:

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB.

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Reporting, continued

In March 2017, the GASB issued Statement No. 85 – *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

In May 2017, the GASB issued Statement No. 86 – *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position

1. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and disclosures of contingent assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of the financial statements and the reported changes in District net position during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Substantially all of the District’s cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months to be cash equivalents.

3. Investments and Investment Policy

The District has adopted an investment policy to deposit funds in financial institutions. Investments are to be made in the following areas:

- Los Angeles County Pooled Surplus Investments
- Checking and savings accounts at local financial institutions

Changes in fair value that occur during a fiscal year are recognized as unrealized gains or losses and reported for that fiscal year. Investment income comprises interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

4. Prepaid Expenses

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position, continued

5. Property Taxes

Property taxes attach an enforceable lien on property as of January 1, each year. Secured property taxes are levied on July 1, and are payable in two installments, on December 10 and April 10. The County of Los Angeles's Assessor's Office assesses all real and personal property within the County each year. The County of Los Angeles Tax Collector's Office bills and collects the District's share of property taxes. The County of Los Angeles Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes and special assessments receivable at year-end are related to property taxes collected by the County of Los Angeles, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and February 1
Collection dates	December 10 and April 10

6. Capital Assets

Capital assets are recorded in the government-wide financial statements. Included in capital assets are land, building and building improvements and furniture and fixtures. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures of the General Fund and as assets in the government-wide financial statements to the extent the District's capitalization threshold is met. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Building and building improvements – 20 years
- Furniture and fixtures – 3 to 5 years

7. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of resources applicable to future periods.

8. Compensated Absences

Compensated absences included vacation and personal time. It is the District's policy to allow vacation pay between ten (10) and twenty (20) working days based on completed years of service. Vacation time may not be used until after the employee successfully completes the first six (6) months of their introductory period. The District's maximum accrual is 240 vacation hours.

It is the District's policy to allow personal pay between four (4) hours and eight (8) working days based on the type of employment (part-time vs. full-time; hourly vs. salaried) and completed years of service. The District's maximum accrual is 64 personal hours.

9. Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of resources applicable to future periods.

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position, continued

10. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and addition to/deduction from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. 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.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

- Valuation Date: June 30, 2016
- Measurement Date: June 30, 2017
- Measurement Period: July 1, 2016 to June 30, 2017

11. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

- **Net investment in capital assets** – component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction, or improvement of those assets.
- **Restricted net position** – component of net position consists of constraints placed on assets reduced by liabilities used through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** – component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of restricted or net investment in capital assets.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

12. Fund Balance

The financial statements, governmental funds, report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent. Fund balance is categorized as follows:

- **Nonspendable fund balance** – amounts that cannot be spent because they are either (a) not spendable in form, or (b) legally or contractually required to be maintained intact.
- **Restricted fund balance** – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions, or enabling legislation.

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position, continued

12. Fund Balance, continued

- **Committed fund balance** – amounts that can only be used for specific purposes determined by formal action of the District’s highest level of decision-making authority (the Board of Trustees) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned fund balance** – amounts that are constrained by the District’s intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose. This is also the classification for residual funds in the District’s special revenue funds.
- **Unassigned fund balance** – the residual classification for the District’s general fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

Fund Balance Policy

The Board of Directors established, modifies, or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, followed by the unrestricted, committed, assigned, and unassigned resources as they are needed.

The District believes that sound financial management principles require that sufficient funds be retained by the District to provide a stable financial base at all times. To retain this stable financial base, the District needs to maintain an unrestricted fund balance in its funds sufficient to fund cash flows of the District and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned, and unassigned fund balances are considered unrestricted.

The purpose of the District’s fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

(2) Cash and Cash Equivalents

Cash and cash equivalents as of June 30, consist of the following:

		<u>2018</u>
Petty cash	\$	1,471
Deposits held with financial institutions		1,430,631
Deposits held with Los Angeles County Treasurer		<u>4,404,498</u>
Total	\$	<u><u>5,836,600</u></u>

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(2) Cash and Cash Equivalents, continued

Authorized Deposits and Investments

Under provisions of the District's investment policy, and in accordance with Section 53601 of the California Government Code, the District may invest in certain types of investments as listed in Note 1(D)(3) to the financial statements.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies. Of the bank balance, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

Custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

Cash with the Los Angeles County Pooled Surplus Investments

Los Angeles County Pooled Surplus Investments complies with the California Government Code Sections 53601 and 53635, and the investment policy adopted by the Board of Supervisors of the County of Los Angeles. The Treasurer and Tax Collector of the County of Los Angeles have delegated the authority to invest funds in the County Treasury.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has, the greater its fair value has sensitivity to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. As of June 30, 2018, the District's deposit in the Los Angeles County Pooled Surplus Investments had an average of 609 days to maturity for the entire portfolio.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Los Angeles County Pooled Surplus Investments is not rated.

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(3) Capital Assets

Change in capital assets for the year was as follows:

	<u>Balance</u> <u>2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2018</u>
Non-depreciable assets:				
Land	\$ 392,194	-	-	392,194
Artwork	360,500	-	-	360,500
Construction in progress	<u>102,707</u>	<u>108,634</u>	<u>(102,707)</u>	<u>108,634</u>
Total non-depreciable assets	<u>855,401</u>	<u>108,634</u>	<u>(102,707)</u>	<u>861,328</u>
Depreciable assets:				
Building and building improvements	29,040,423	102,707	-	29,143,130
Furniture and fixtures	<u>2,249,099</u>	<u>190,348</u>	-	<u>2,439,447</u>
Total depreciable assets	<u>31,289,522</u>	<u>293,055</u>	-	<u>31,582,577</u>
Accumulated depreciation:				
Building and building improvements	(21,127,125)	(791,357)	-	(21,918,482)
Furniture and fixtures	<u>(2,030,345)</u>	<u>(61,867)</u>	-	<u>(2,092,212)</u>
Total accumulated depreciation	<u>(23,157,470)</u>	<u>(853,224)</u>	-	<u>(24,010,694)</u>
Total depreciable assets, net	<u>8,132,052</u>	<u>(560,169)</u>	-	<u>7,571,883</u>
Total capital assets, net	<u>\$ 8,987,453</u>			<u>8,433,211</u>

(4) Compensated Absences

The District's liability for compensated absences is determined annually. The changes to compensated absences balance were as follows:

	<u>As Restated</u> <u>Balance</u> <u>2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2018</u>
\$	<u>328,758</u>	<u>374,079</u>	<u>(390,463)</u>	<u>312,374</u>

(5) Defined Benefit Pension Plan

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Pension Plan (Plan or PERF C) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of a miscellaneous risk pool and a safety risk pool, which are comprised of individual employer miscellaneous and safety plans, respectively. Benefit provisions under the Plan are established by State statute and the District's resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website or may be obtained from their executive office at 400 P Street, Sacramento, California 95814.

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(5) Defined Benefit Pension Plan, continued

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. Cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the District's CalPERS 2.0% at 60 Risk Pool Retirement Plan to new employee entrants effective December 31, 2012. All employees hired after January 1, 2013, are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

The District participates in the Plan's miscellaneous risk pool. The provisions and benefits for the Plan's miscellaneous pool in effect at June 30, 2018, are summarized as follows:

	<u>Classic</u>	<u>PEPRA</u>
	Prior to	After
	<u>Jan 1, 2011</u>	<u>Jan 1, 2013</u>
Hire date		
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	
Benefit payments	monthly for life	
Retirement age	55 - 60	52 - 57
Monthly benefits, as a percentage of eligible compensation	1.0% to 2.0%	1.0% to 2.0%
Required employee contribution rates	7.00%	6.25%
Required employer contribution rates	8.92%	6.53%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1, following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30, by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2018, contributions recognized as part of pension expense for the Plan were as follows:

	<u>Miscellaneous</u>
Contributions - employer	\$ <u>692,046</u>

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(5) Defined Benefit Pension Plan, continued

Net Pension Liability

As of June 30, 2018, the District reported net pension liability for its proportionate share of the net pension liability of the Plan as follows:

	Miscellaneous
Proportionate share of net pension liability	\$ 5,069,934

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability for the miscellaneous risk pool. As of June 30, 2018, the net pension liability of the Plan is measured as of June 30, 2017 (the measurement date). The total pension liability for the Plan's miscellaneous risk pool used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 (the valuation date), rolled forward to June 30, 2017, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's change in proportionate share of the net pension liability for the Plan's miscellaneous risk pool as of the measurement date June 30, 2017, was as follows:

	Miscellaneous
Proportion - June 30, 2016	0.051454%
Proportion - June 30, 2017	0.051122%
Decrease in proportionate share	-0.000332%

Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the District recognized pension expense of \$847,531. As of June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 626,407	-
Differences between actual and expected experience	-	(104,130)
Change in assumptions	895,564	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	(170,470)
Net difference between projected and actual earnings on plan investments	219,259	-
Total	\$ 1,741,230	(274,600)

As of June 30, 2018, the District reported \$626,407 as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ended June 30, 2019.

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(5) Defined Benefit Pension Plan, continued

Deferred Outflows/Inflows of Resources Related to Pensions, continued

As of June 30, 2018, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30,</u>	<u>Net Deferred Outflow/ (Inflow)</u>
2019	\$ 112,604
2020	536,482
2021	321,312
2022	(130,175)

Actuarial Assumptions

The total pension liabilities in the June 30, 2016, actuarial valuations were determined using the following actuarial assumptions and methods:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumption	
Discount rate	7.15%
Inflation	2.75%
Salary increase	Varies by Entry Age and Service
Mortality table*	Derived using CalPERS membership data
Period upon which actuarial experience survey assumptions were based	1997 - 2011
Post-retirement benefit Increase	Contract COLA up to 2.75% until PPPA floor on purchasing power applies; 2.75% thereafter.

* The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 experience study report (based on CalPERS demographic data from 1997 to 2011) available online.

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(5) Defined Benefit Pension Plan, continued

Discount Rate

The discount rates used in the actuarial valuations to measure the total pension liability as of June 30, 2017, reflect the long-term expected rates of return. The discount rates used to measure the total pension liability as of June 30, 2017, was 7.15%. These differ from the discount rates used as of June 30, 2016, which was 7.65%, due to a decrease in the long-term expected rate of return. The financial reporting discount rates are not adjusted for administrative expenses and are consistent with the funding discount rates at the end of the three-year funding discount rate phase-in period.

To determine whether the municipal bond rate should be used in the calculation of the discount rate, the amortization and smoothing periods adopted by CalPERS in 2013 were used. The crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments.

Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the PERF C.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short term (first 10 years) and the long term (11+ years) using a building-block approach. Using the expected nominal returns for both short term and long term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

As of June 30, 2018, the target allocation and the long-term expected real rate of return by asset class were as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Years 1 -10</u>	<u>Real Return Years 11+</u>
Global Equity	47.00 %	4.90 %	0.54 %
Global Fixed Income	19.00	0.80	2.27
Inflation Sensitive	6.00	0.60	1.39
Private Equity	12.00	6.60	6.63
Real Asset	11.00	2.80	5.21
Infrastructure and Forestland	3.00	3.90	5.36
Liquidity	2.00	(0.40)	(0.90)
Total	<u>100.00 %</u>		

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(5) Defined Benefit Pension Plan, continued

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower or one-percentage point higher than the current rate.

As of June 30, 2018, the District's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, are as follows:

Description	Discount Rate	Current Discount Rate	Discount Rate
	-1% @ 6.15%	@ 7.15%	+1% @ 8.15%
Net pension liability	\$ 8,265,644	5,069,934	2,423,189

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports.

(6) Restatement of Net Position/Fund Balance

Property Tax Receivable

In 2018, the District determined that 2017 property tax receivable was understated by \$276,059. As a result, the District has recorded a prior period adjustment to recognize additional property tax in the prior year.

Compensated Absences

In 2018, the District determined that the calculation of compensated absences for fiscal year 2017 did not include employees' personal time and was understated by \$92,580. As a result, the District has recorded a prior period adjustment to recognize the additional compensated absence liability in the prior year.

Other Balances

In 2018, the District determined that it understated the 2017 cash balance by \$26,970, and overstated accounts payable in the amount of \$281. As a result, the District has recorded a \$26,689 prior period adjustment to restate these balances.

The effect of the above changes is summarized as follows:

	<u>Net Position</u>	<u>Fund Balance</u>
Net position/fund balance at June 30, 2017	\$ 10,909,835	5,540,740
Property tax receivable	276,059	276,059
Compensated absences	(92,580)	(92,580)
Accounts payable	(281)	(281)
Cash	26,970	26,970
Net position/fund balance at July 1, 2017, as restated	<u>\$ 11,120,003</u>	<u>5,750,908</u>

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(7) Unrestricted Net Position

Unrestricted net position is categorized as follows:

Description	2018
Non-spendable net position:	
Prepaid expenses and deposits	\$ 40,818
Spendable net position are designated as follows:	
Unrestricted	2,152,970
Total unrestricted net position	\$ 2,193,788

(8) Fund Balance

Fund balances are presented in the following categories: non-spendable, restricted, committed, assigned, and unassigned (See Note 1.D.12 for a description of these categories).

The District's policy assigns fund balance into the following categories:

- Minimum fund balance – six-months of operating expenses as budgeted for the subsequent year to ensure that the District has sufficient cash on hand for the first six months of the fiscal year prior to the receipt of property taxes.
- Emergency reserve fund balance – 5% of total operating revenue and an additional amount, up to 5% of total operating revenue, after the application of the asset replacement fund balance. This reserve is to be used to protect against unplanned events such as emergency purchases, special projects, and situations such as loss of revenue due to an economic down-turn.
- Asset replacement fund balance – the remaining fund balance after deducting the minimum fund balance and emergency reserve fund balance up to the amount budgeted for the subsequent year.

A detailed schedule of fund balances and their funding composition at June 30, 2018, is as follows:

Description	Amount
Nonspendable:	
Prepaid expenses and deposits	\$ 40,818
Assigned:	
Compensated absences	312,374
Minimum balance requirement	4,567,700
Emergency reserve	820,005
Asset replacement	110,884
Total assigned	5,810,963
Unassigned:	
Operations	257,685
Total fund balance	\$ 6,109,466

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(9) Deferred Compensation Savings Plan

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (Program). The purpose of this Program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death, or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of the plan assets held in trust by Nationwide Retirement Solutions at June 30, 2018, was \$1,172,885.

(10) Risk Management

The District 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. The District, as a member of the Special District Risk Management Authority (SDRMA), has purchased various insurance policies to manage the potential liabilities that may occur from the previously named sources. SDRMA's purpose is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2018, the District participated in the liability and property programs of the SDRMA as follows:

- Property coverage limits of \$1 billion for property, subject to a \$1,000 deductible, per occurrence; \$100 million for boiler and machinery per occurrence; and \$2 million for pollution per occurrence.
- General liability coverage up to \$10 million for bodily injury, property damage, employment benefits, employee and public officials errors and omission, and employment practices liability per occurrence; \$500,000 for public officials personal; and \$1 million for employee and public officials dishonesty.
- Auto liability coverage limits up to \$10 million for auto bodily injury and auto property damage per occurrence; and \$1,000,000 for uninsured motorist.
- Workers' compensation insurance up to the California statutory limits for all work related injuries/illnesses covered by California Law. Employer's liability per occurrence for workers' compensation coverage is \$5 million, subject to the terms, conditions, and exclusions as provided in the Memorandum of Coverage.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2018, 2017, and 2016. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There was no IBNR claims payable as of June 30, 2018.

(11) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the report date, that has effective dates that may impact future financial presentations.

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(11) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 88

In April 2018, the GASB issued Statement No. 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(11) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 83

In November 2016, the GASB issued Statement No. 83 – *Certain Asset Retirement Obligations*. This Statement (1) addresses accounting and financial reporting for certain asset retirement obligations (AROs), (2) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (3) requires that recognition occur when the liability is both incurred and reasonably estimable, (4) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, (5) requires the current value of a government’s AROs to be adjusted for the effects of general inflation or deflation at least annually, and (6) requires disclosure of information about the nature of a government’s AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 88, continued

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 89

In June 2018, the GASB issued Statement No. 89 – *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

Palos Verdes Library District
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended June 30, 2018

(12) Contingencies

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(13) Subsequent Events

Events occurring after June 30, 2018, have been evaluated for possible adjustment to the financial statements or disclosure as of October 18, 2018, which is the date the financial statements were available to be issued.

Subsequent to year end, the District was presented with a check for \$350,000 from Continental Development Corporation in relations to the Village Parking Deck. The District is not aware of any other subsequent events that would require recognition or disclosure in the financial statements.

< Page Intentionally Left Blank >

Required Supplementary Information

Palos Verdes Library District
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2018

Budgets and Budgetary Data

	Adopted Original Budget	Board Approved Changes	Revised Budget	Actual Budgetary Basis	Variance Positive (Negative)
Expenditures/Expenses:					
Library operations:					
Salaries and benefits	\$ 6,470,200	(19,500)	6,450,700	6,418,160	32,540
Materials and services	1,954,500	102,400	2,056,900	1,932,702	124,198
Capital outlay	-	391,000	391,000	298,982	92,018
Total expenditures/expenses	<u>8,424,700</u>	<u>473,900</u>	<u>8,898,600</u>	<u>8,649,844</u>	<u>248,756</u>
Program revenues:					
Charges for services	441,000	(3,100)	437,900	471,582	33,682
Operating grants and contributions	358,500	7,806	366,306	328,649	(37,657)
Total program revenues	<u>799,500</u>	<u>4,706</u>	<u>804,206</u>	<u>800,231</u>	<u>(3,975)</u>
General revenues:					
Property taxes	7,949,700	-	7,949,700	8,142,576	192,876
Interest earnings	25,000	2,000	27,000	57,478	30,478
Other	-	6,394	6,394	8,117	1,723
Total general revenues	<u>7,974,700</u>	<u>8,394</u>	<u>7,983,094</u>	<u>8,208,171</u>	<u>225,077</u>
Total revenues	<u>8,774,200</u>	<u>13,100</u>	<u>8,787,300</u>	<u>9,008,402</u>	<u>221,102</u>
Net changes in fund balance	<u>349,500</u>	<u>(460,800)</u>	<u>(111,300)</u>	<u>358,558</u>	<u>469,858</u>
Fund balance, beginning of year	<u>5,750,908</u>		<u>5,750,908</u>	<u>5,750,908</u>	
Fund balance, end of year	<u>\$ 6,100,408</u>		<u>5,639,608</u>	<u>6,109,466</u>	

Notes to Required Supplementary Information

The District follows specific procedures in establishing the budgetary data reflected in the financial statements. Each year the District Director prepares and submits an operating budget to the Board of Trustees for the General Fund no later than June of each year. The basis used to prepare the budget does not differ substantially from the modified accrual basis of accounting. The adopted budget becomes operative on July 1. The Board of Trustees must approve all supplemental appropriations to the budget and transfers between major accounts.

The District presents a comparison of the annual budget to actual results for the General Fund at the functional expenditure-type major object level for financial reporting purposes. The budgeted expenditure amounts represent the adopted budget.

Palos Verdes Library District
Schedules of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2018
Last Ten Years*

Defined Benefit Pension Plan

<u>Description</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.05112%	0.05145%	0.04690%	0.04986%
District's proportionate share of the net pension liability	\$ 5,069,934	4,452,322	3,218,888	3,102,720
District's covered-employee payroll	3,841,609	3,579,441	3,049,823	2,960,993
District's proportionate Share of the net pension liability as percentage of covered-employee payroll	131.97%	124.39%	176.90%	104.79%
Plan's fiduciary net position as a percentage of the total pension liability	73.31%	74.06%	83.46%	78.40%

Notes to the Schedules of the District's Proportionate Share of Net Pension Liability

Changes in Benefit Terms – The District can make changes to their plan provisions, and such changes occur on an ongoing basis. A summary of the plan provisions that were used for the District's plan can be found in the plan's annual valuation report.

Changes of Assumptions – In fiscal year 2018, the financial reporting discount rate was lowered from 7.65% to 7.15%. In December 2016, the CalPERS Board approved lowering the funding discount rate used from 7.50% to 7.00%, which is to be phased-in over a three-year period (7.50% to 7.375%, 7.375% to 7.25%, and 7.25% to 7.00%) beginning with the June 30, 2016, valuation reports. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

* The District has presented information for those years for which information is available until a full 10-year trend is compiled.

Palos Verdes Library District
Schedules of Pension Plan Contributions
As of June 30, 2018
Last Ten Years*

Defined Benefit Pension Plan

<u>Description</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 526,407	492,046	436,015	420,029
Contributions in relation to the actuarially determined contributions	<u>(626,407)</u>	<u>(692,046)</u>	<u>(436,015)</u>	<u>(420,029)</u>
Contribution deficiency (excess)	<u>\$ (100,000)</u>	<u>(200,000)</u>	<u>-</u>	<u>-</u>
Covered-employee payroll	<u>\$ 3,841,609</u>	<u>3,579,441</u>	<u>3,049,823</u>	<u>2,960,993</u>
Contributions as a percentage of covered-employee payroll	16.31%	19.33%	14.30%	14.19%

Notes to the Schedules of Pension Plan Contributions

* The District has presented information for those years for which information is available until a full 10-year trend is compiled.

< Page Intentionally Left Blank >

Report on Internal Controls and Compliance



Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA, CGMA
Jonathan P. Abadesco, CPA
Andy Beck, CPA

Fedak & Brown LLP

Certified Public Accountants

Cypress Office:
6081 Orange Avenue
Cypress, California 90630
(657) 214-2307
FAX (714) 527-9154

Riverside Office:
1945 Chicago Avenue, Suite C-1
Riverside, California 92507
(951) 783-9149

Independent Auditor's Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Library Trustees
Palos Verdes Library District
Palos Verdes, California

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 Palos Verdes Library District (District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated October 18, 2018.

Internal Control Over Financial Reporting

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

**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*, continued**

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.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
October 18, 2018