

FONTANA REGIONAL LIBRARY, INC.

Bryson City, North Carolina

Financial Statements and
Supplementary Information

Year Ended June 30, 2017

FONTANA REGIONAL LIBRARY, INC.

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FONTANA REGIONAL LIBRARY, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Fontana Regional Library, Inc.
Bryson City, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Fontana Regional Library, Inc. (the Library), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Fontana Regional Library Inc.'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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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, the major fund, and the aggregate remaining fund information of Fontana Regional Library, Inc. as of June 30, 2017, and the respective changes in financial position and the respective budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 and the Local Government Employees' Retirement System Schedule of the Proportionate Share of the Net Pension Liability and Schedule of Contributions on pages 33 and 34, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2017, on our consideration of Fontana Regional Library, Inc.'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 the 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 Fontana Regional Library, Inc.'s internal control over financial reporting and compliance.

CARTER, P.C.

FONTANA REGIONAL LIBRARY, INC.

Management's Discussion and Analysis

As management of Fontana Regional Library, Inc. (the Library), we offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Library for the fiscal year ended June 30, 2017. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Library's financial statements which follow this narrative.

Financial Highlights

- The assets and deferred outflows of the Library exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$2,822,832 (*net position*).
- The Library's total net position decreased by \$203,776, primarily due to a loss on the disposal of collection materials.
- As of the close of the current fiscal year, the Library's governmental funds reported combined ending fund balances of \$1,400,106, an increase of \$93,869 in comparison with the prior year. Approximately 8.7% of this total amount, or \$121,717, is restricted.
- The Library's total long-term liabilities increased by \$397,896 during the current fiscal year. The key factor in this increase was an increase in the Library's share of the net pension liability.

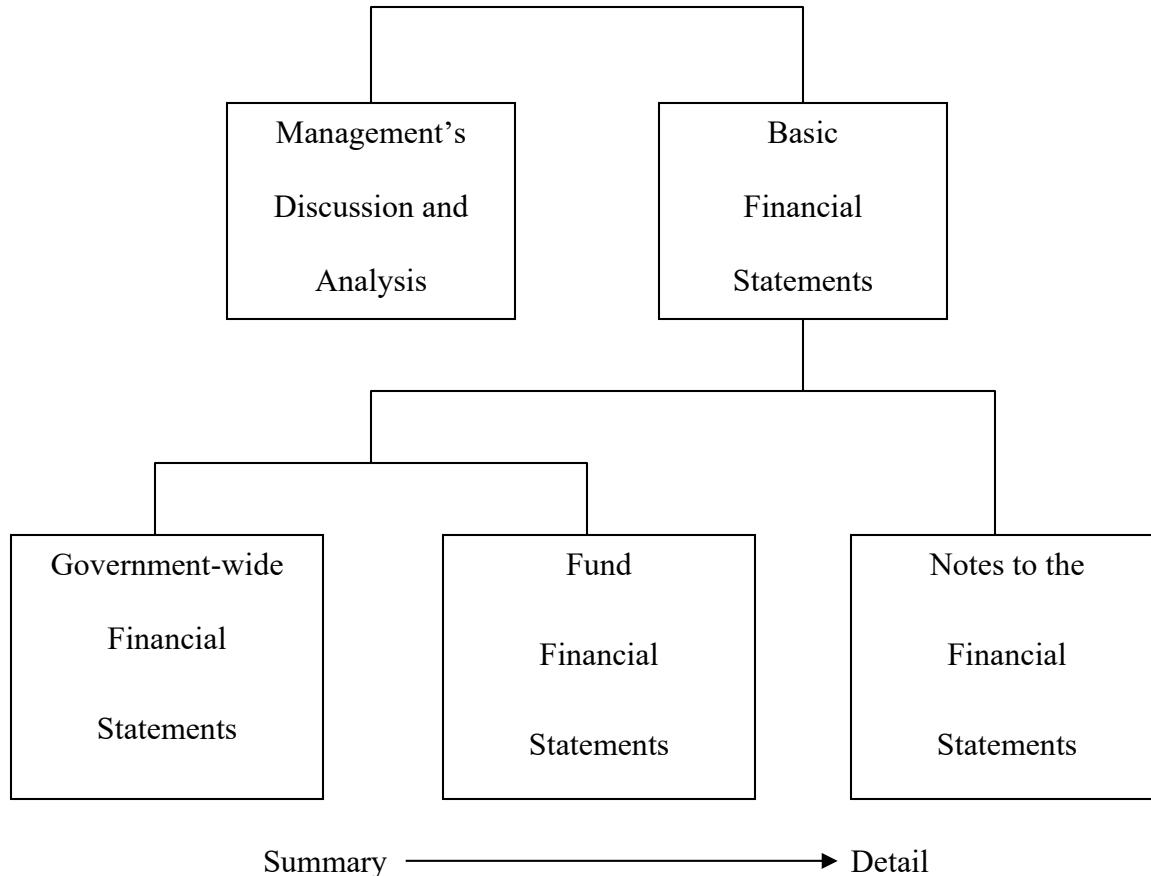
Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Library's basic financial statements. The Library's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Library through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplementary information that will enhance the reader's understanding of the financial condition of the Library.

FONTANA REGIONAL LIBRARY, INC.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Library's financial status.

The next statements (Exhibits 3 through 5) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Library's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the budgetary comparison statement.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **required supplementary information** is provided to show details about the Library's net pension liability.

FONTANA REGIONAL LIBRARY, INC.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Library's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Library's financial status as a whole.

The two government-wide statements report the Library's net position and how it has changed. Net position is the difference between the Library's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Library's financial condition.

The government-wide financial statements are Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Library's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the North Carolina General Statutes or the Library's budget ordinance. All of the funds of the Library are governmental funds.

Governmental Funds - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Governmental funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Library's programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Library adopts an annual budget for the General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the Library's customers, management, and the Board of Trustees of the Library in determining what activities will be pursued and what services will be provided by the Library during the year. It also authorizes the Library to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Library complied with the budget ordinance and whether or not the Library has succeeded in providing the services as planned when the budget was adopted.

FONTANA REGIONAL LIBRARY, INC.

Notes to the 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 financial statements begin on page 16 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Library’s progress in funding its obligation to provide pension benefits to its employees. The required supplementary information begins on page 33 of this report.

Interdependence with Other Entities - The Library depends on financial resources flowing from, or associated with, the federal government, the State of North Carolina, Macon, Swain, and Jackson counties and several municipalities. Because of this dependency, the Library is subject to changes in specific flows of intergovernmental revenues based on modifications to federal, state, county, and municipal laws and appropriations.

Government-Wide Financial Analysis

**Fontana Regional Library Inc.’s Net Position - Governmental Activities
Figure 2**

	2017	2016
Current and other assets	\$ 1,406,428	\$ 1,310,917
Capital assets	<u>1,593,357</u>	<u>1,866,882</u>
Total assets	<u>2,999,785</u>	<u>3,177,799</u>
Deferred outflows of resources	<u>460,334</u>	<u>125,586</u>
Long-term liabilities outstanding	612,844	214,948
Other liabilities	<u>6,322</u>	<u>4,681</u>
Total liabilities	<u>619,166</u>	<u>219,629</u>
Deferred inflows of resources	<u>18,121</u>	<u>57,148</u>
Net position:		
Net investment in capital assets	1,593,357	1,886,882
Restricted	121,717	95,955
Unrestricted	<u>1,107,758</u>	<u>1,043,771</u>
Total net position	<u>\$ 2,822,832</u>	<u>\$ 3,026,608</u>

As noted earlier, net position may serve over time as one useful indicator of a Library’s financial condition. The assets and deferred outflows of resources of the Library exceeded liabilities and deferred inflows of resources by \$2,822,832 as of June 30, 2017. As of June 30, 2016, the net position of the Library stood at \$3,026,608. The Library’s net position decreased by \$203,776 for the fiscal year ended June 30, 2017, compared to an increase of \$208,845 in 2016. The unrestricted portion of the Library’s net position is \$1,107,758. In 2016, the unrestricted net position was \$1,043,771.

FONTANA REGIONAL LIBRARY, INC.

Government-Wide Financial Analysis (continued)

**Fontana Regional Library, Inc. Changes in Net Position - Governmental Activities
Figure 3**

	2017	2016
Revenues:		
Program Revenues:		
Charges for services	\$ 93,880	\$ 91,333
Operating grants and contributions	170,625	198,167
Capital grants and contributions	40,662	37,641
General revenues:		
Unrestricted County and municipal appropriations	2,320,402	2,248,821
Unrestricted State appropriations	326,025	327,021
Grants and contributions not restricted to specific programs	215,801	225,637
Universal service refund	161,690	143,222
Sales tax refund	24,040	21,642
Investment earnings	582	11,835
Miscellaneous	2,173	2,382
Total revenues	3,355,880	3,307,701
Expenses:		
Culture and recreation	3,559,656	3,098,856
Change in net position	(203,776)	208,845
Net position, July 1	3,026,608	2,817,763
Net position, June 30	\$ 2,822,832	\$ 3,026,608

Governmental activities decreased the Library’s net position by \$203,776. This was primarily related to the loss on the disposal of capital assets in addition to an increase in depreciation expense in the current year.

Financial Analysis of Library’s Funds

As noted earlier, the Library uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Library’s governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Library’s financing requirements.

The General Fund is the chief operating fund of the Library. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,174,458, while total fund balance reached \$1,334,315.

At June 30, 2017, the governmental funds of the Library reported a combined fund balance of \$1,400,106, a 7.2% percent increase over last year.

FONTANA REGIONAL LIBRARY, INC.

General Fund Budgetary Highlights

During the fiscal year, the Library revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as federal and State grants; and 3) increases in appropriations that become necessary to maintain services. Reductions in estimated revenues and corresponding decreases in appropriations totaled \$36,257 in the General Fund.

Capital Asset and Debt Administration

Capital assets. At June 30, 2017, the Library had \$1,593,357 (net of accumulated depreciation) invested in capital assets. These assets include artwork, furniture and equipment, collection materials, and building improvements. Capital assets decreased \$273,525 in the current fiscal year. This was mostly related to an increase in depreciation expense and a loss on the disposal of collection materials recognized in the current year. The following is a summary of capital assets, net of depreciation at year-end.

Fontana Regional Library's Capital Assets - Governmental Activities (net of depreciation)

Figure 4

	Total	
	2017	2016
Artwork	\$ 28,300	\$ 28,300
Building improvements	12,991	14,598
Furniture and equipment	114,283	99,907
Computer equipment		
Vehicles	44,408	52,427
Collection materials	<u>1,393,375</u>	<u>1,671,650</u>
Total	<u>\$ 1,593,357</u>	<u>\$ 1,866,882</u>

Additional information on the Library's capital assets can be found in Note 3.A.3 of the Basic Financial Statements.

Long-term debt. As of June 30, 2017, the Library had total debt outstanding of \$612,844. The Library's total debt increased by \$397,896 during the current fiscal year. The key factor in this increase was an increase in the Library's share of the net pension liability.

FONTANA REGIONAL LIBRARY, INC.

Economic Factors and Next Year's Budget

The Library does not anticipate any significant change in current economic factors that affect Library operations. Intergovernmental revenues are expected to increase slightly. State appropriations and private funding are also expected to increase slightly. A slight decrease in state operating grants is expected since the Library expects to no longer receive the Smart Start grant after the current fiscal year.

Requests for Information

This report is designed to provide an overview of the Library's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Officer, Fontana Regional Library, Inc., 33 Fryemont Street, Bryson City, North Carolina 28713 or by telephone at (828) 488-2382.

BASIC FINANCIAL STATEMENTS

FONTANA REGIONAL LIBRARY, INC.

Statement of Net Position
June 30, 2017

	<u>Primary Government Governmental Activities</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 1,350,502
Due from other governments	51,601
Accounts receivable (net)	<u>4,325</u>
Total current assets	<u>1,406,428</u>
Capital assets:	
Non-depreciable capital assets	28,300
Depreciable capital assets	<u>1,565,057</u>
Total capital assets	<u>1,593,357</u>
Total assets	<u>\$ 2,999,785</u>
Deferred Outflows of Resources	
Pension deferrals	\$ 346,966
Contributions to pension plan in current fiscal year	<u>113,368</u>
Total deferred outflows of resources	<u>\$ 460,334</u>
Liabilities	
Current liabilities:	
Accounts payable and accrued expenses	\$ 6,322
Long-term liabilities:	
Net pension liability	505,752
Compensated absences	<u>107,092</u>
Total liabilities	<u>\$ 619,166</u>
Deferred Inflows of Resources	
Pension deferrals	<u>\$ 18,121</u>
Net Position	
Net investment in capital assets	\$ 1,593,357
Restricted for:	
Stabilization by State Statute	55,926
Library construction	65,791
Unrestricted	<u>1,107,758</u>
Total net position	<u>\$ 2,822,832</u>

The notes to the financial statements are an integral part of this statement.

FONTANA REGIONAL LIBRARY, INC.

Statement of Activities
For the Year Ended June 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position Primary Governmental Activities</u>
Primary government:					
Governmental activities:					
Cultural and recreation	\$ 3,559,656	\$ 93,880	\$ 170,625	\$ 40,662	\$ (3,254,489)
General revenues:					
Unrestricted County and municipal appropriations					2,320,402
Unrestricted State appropriations					326,025
Grants and contributions not restricted to specific programs					215,801
Universal service refund					161,690
Sales tax refund					24,040
Unrestricted investment earnings					582
Miscellaneous, unrestricted					2,173
Total general revenues					<u>3,050,713</u>
Decrease in net position					(203,776)
Net position, beginning					<u>3,026,608</u>
Net position, ending					<u>\$ 2,822,832</u>

The notes to the financial statements are an integral part of this statement.

FONTANA REGIONAL LIBRARY, INC.

Balance Sheet
Governmental Funds
June 30, 2017

	<u>Major Fund</u> General Fund	<u>Non-Major</u> Capital Fund	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 1,284,711	\$ 65,791	\$ 1,350,502
Due from other governments	51,601		51,601
Accounts receivable (net)	4,325		4,325
Total assets	<u>\$ 1,340,637</u>	<u>\$ 65,791</u>	<u>\$ 1,406,428</u>
Liabilities			
Accounts payable and accrued liabilities	<u>\$ 6,322</u>	<u>\$</u>	<u>\$ 6,322</u>
Fund balances			
Restricted:			
Stabilization by State Statute	55,926		55,926
Library construction		65,791	65,791
Assigned:			
Subsequent year's expenditures	103,931		103,931
Unassigned	<u>1,174,458</u>		<u>1,174,458</u>
Total fund balances	<u>1,334,315</u>	<u>65,791</u>	<u>1,400,106</u>
Total liabilities and fund balances	<u>\$ 1,340,637</u>	<u>\$ 65,791</u>	<u>\$ 1,406,428</u>

Amounts reported for governmental activities in the Statement of Net Position
(Exhibit 1) are different because:

Total fund balance - Governmental Funds:	\$ 1,400,106
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,593,357
Deferred outflows of resources related to pensions are not reported in the funds.	346,966
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position	113,368
Some liabilities are not due and payable in the current period and are therefore not recorded in the funds:	
Compensated absences	(107,092)
Net pension liability	(505,752)
Deferred inflows of resources related to pensions are not reported in the funds.	<u>(18,121)</u>
Net position of governmental activities	<u>\$ 2,822,832</u>

The notes to the financial statements are an integral part of this statement.

FONTANA REGIONAL LIBRARY, INC.

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2017

	<u>Major Fund</u>	<u>Non-Major</u>	
	General	Capital	
	Fund	Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Revenues			
State Aid to Libraries	\$ 326,025	\$	\$ 326,025
Restricted intergovernmental revenues	104,595		104,595
Unrestricted intergovernmental revenues	2,320,402		2,320,402
Restricted donations	54,978	9,154	64,132
Unrestricted donations	92,297		92,297
Friends of the Library donations	125,402		125,402
Universal service refund	161,690		161,690
Sales tax refund	24,040		24,040
Fines and fees	93,880		93,880
Investment earnings	541	41	582
Miscellaneous	2,173		2,173
Total revenues	<u>3,306,023</u>	<u>9,195</u>	<u>3,315,218</u>
Expenditures			
Cultural and recreation:			
Personnel	2,386,025		2,386,025
Operating	496,860		496,860
Collection materials	295,058		295,058
Capital outlay	43,406		43,406
Total expenditures	<u>3,221,349</u>		<u>3,221,349</u>
Net change in fund balance	84,674	9,195	93,869
Fund balance, beginning	<u>1,249,641</u>	<u>56,596</u>	<u>1,306,237</u>
Fund balance, ending	<u>\$ 1,334,315</u>	<u>\$ 65,791</u>	<u>\$ 1,400,106</u>

The notes to the financial statements are an integral part of this statement.

FONTANA REGIONAL LIBRARY, INC.

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds (continued)
For the Year Ended June 30, 2017

Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:

Net change in fund balances - total Governmental Funds	\$	93,869
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:</p>		
Capital outlay		43,406
Collection materials expenditures that were capitalized		295,058
Depreciation expense		(526,214)
<p>Donations of collection materials that were capitalized increase net position in the Statement of Activities, but do not appear in the governmental funds because they are not financial resources</p>		
		40,662
<p>The net book value of capital assets disposed of during the year are not capitalized on the modified accrual basis</p>		
		(126,437)
<p>Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities</p>		
		113,368
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:</p>		
Compensated absences		(2,099)
Pension expense		<u>(135,389)</u>
Total changes in net position of governmental activities	\$	<u>(203,776)</u>

The notes to the financial statements are an integral part of this statement.

FONTANA REGIONAL LIBRARY, INC.

Statement of Revenues, Expenditures, and Changes in Fund
Balances - Budget and Actual - General Fund
For the Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
Revenues				
State Aid to Libraries	\$ 327,020	\$ 326,025	\$ 326,025	\$
Restricted intergovernmental revenues	154,408	104,595	104,595	
Unrestricted intergovernmental revenues	2,426,622	2,320,402	2,320,402	
Restricted donations	1,500	43,969	54,978	11,009
Unrestricted donations	59,900	92,369	92,297	(72)
Friends of the Library donations	103,500	130,330	125,402	(4,928)
Universal service refund	146,130	162,038	161,690	(348)
Sales tax refund	89,300	17,000	24,040	7,040
Fines and fees	14,000	89,365	93,880	4,515
Investment earnings	11,800	11,048	541	(10,507)
Miscellaneous	<u>1,000</u>	<u>1,782</u>	<u>2,173</u>	<u>391</u>
Total revenues	<u>3,335,180</u>	<u>3,298,923</u>	<u>3,306,023</u>	<u>7,100</u>
Expenditures				
Culture and recreation:				
Personnel	2,410,640	2,437,070	2,386,025	51,045
Operating	630,831	582,969	496,860	86,109
Collection materials	300,065	299,865	295,058	4,807
Capital outlay	<u>27,638</u>	<u>45,196</u>	<u>43,406</u>	<u>1,790</u>
Total expenditures	<u>3,369,174</u>	<u>3,365,100</u>	<u>3,221,349</u>	<u>143,751</u>
Revenues over (under) expenditures	(33,994)	(66,177)	84,674	150,851
Other Financing Sources (Uses)				
Appropriated fund balance	64,994	86,177		(86,177)
Contingency	<u>(31,000)</u>	<u>(20,000)</u>		<u>20,000</u>
Total other financing sources (uses)	<u>33,994</u>	<u>66,177</u>		<u>(66,177)</u>
Net change in fund balance	<u>\$</u>	<u>\$</u>	84,674	<u>\$ 84,674</u>
Fund balance, beginning			<u>1,249,641</u>	
Fund balance, ending			<u>\$ 1,334,315</u>	

The notes to the financial statements are an integral part of this statement.

FONTANA REGIONAL LIBRARY, INC.

Notes to the Financial Statements
June 30, 2017

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Fontana Regional Library, Inc. (the Library) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies.

A. Reporting Entity

Fontana Regional Library, Inc. is a public library in the State of North Carolina providing services in Jackson, Macon, and Swain Counties. The Library is governed by a nine-member board of trustees composed of three members from each of the three counties served.

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the Library. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Library. Governmental activities generally are financed through intergovernmental revenues and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. The Library does not have any business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Library's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Library's funds. The Library has one fund category - *governmental*. The emphasis of the fund financial statements is on major governmental funds, each displayed in a separate column.

The Library reports the following major governmental fund:

General Fund. The General Fund is the general operating fund of the Library. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund.

The Library reports the following non-major governmental fund:

Capital Fund. The Capital Fund accounts for all financial resources related to fundraising for the construction of a new Marianna Black Library.

Note 1 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

Government-wide Financial Statements. In accordance with North Carolina General statutes, all funds of the Library are maintained during the year using the modified accrual basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Library gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Library considers all to be available if they are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the Library funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Library's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

D. Budgetary Data

The Library's budget is adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund. The Library has not established a capital project budget for the Capital Fund since the construction of the facility is the activity of Swain County.

All budgets are prepared using the modified accrual basis of accounting and all annual appropriations lapse at the fiscal year-end. Expenditures may not legally exceed appropriations at the line-item level. Amendments are required for any revisions that alter total expenditures of any fund and all amendments must be approved by the Board of Trustees. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

Note 1 - Summary of Significant Accounting Policies (continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity

1. Deposits and Investments

All deposits of the Library are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Library may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Library may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

The Library had no investments at June 30, 2017.

2. Cash and Cash Equivalents

All cash and investments with original maturities of three months or less are considered cash and cash equivalents.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Capital Assets

Donated capital assets received prior to June 15, 2015, are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015, are recorded at acquisition value. All other purchased capital assets are recorded at original cost. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.

It is the policy of the Library to capitalize all capital assets costing more than \$5,000 with an estimated useful life of two or more years. In addition, collection materials that are purchased and used in large quantities are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Building improvements	15
Furniture and equipment	5-7
Computer equipment	5
Vehicles	5
Collection materials	7

Note 1 - Summary of Significant Accounting Policies (continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (continued)

5. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Library has two items that meets this criterion - contributions made to the pension plan in the current fiscal year and pension related deferrals. In addition to liabilities, the statement of net position also reports a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Library has one item that meets this criterion for this category - pension deferrals.

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

In fund financial statements, governmental funds report the face amount of debt issued as other financing sources.

7. Compensated Absences

The vacation policy of the Library provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Library, the current portion of the accumulated vacation pay is not considered to be material; therefore, no expenditure has been reported in the governmental funds. For the Library's governmental activities, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Library has assumed a first-in, first-out method of using accumulated compensated time. Compensated absences have typically been liquidated from the General Fund.

The Library's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Library has no obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Note 1 - Summary of Significant Accounting Policies (continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (continued)

8. Net Position/Fund Balances

Net Position

Net position in government-wide financial statements is classified as the net investment in capital assets, restricted and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through State statute.

Fund Balance

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance - This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The Library did not have any nonspendable fund balances at June 30, 2017.

Restricted Fund Balance - This classification includes amounts that are restricted to specific purposes externally imposed by creditors or donors, or imposed by law.

 Restricted for Stabilization by State Statute - portion of fund balance that is restricted by State Statute [G.S. 159-8(a)]

 Restricted for Library Construction - portion of fund balance that is restricted by donors for the construction of the new Marianna Black library.

Committed Fund Balance - portion of fund balance that can only be used for specific purposes imposed by majority vote of the Library's governing body (highest level of decision-making authority). Any changes or removal of specific purpose requires majority action by the governing body that approved the original action. The Library did not have any committed fund balances at June 30, 2017.

Assigned Fund Balance - portion of fund balance that the Library intends to use for specific purposes.

 Subsequent year's expenditures - portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed.

Unassigned fund balance - portion of fund balance that has not been restricted, committed, or assigned to specific purposes within the General Fund.

Note 1 - Summary of Significant Accounting Policies (continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (continued)

8. Net Position/Fund Balances (continued)

Fund Balance (continued)

The Library has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: federal funds, State funds, local non-Library funds, Library funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance, and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Library.

9. Defined Benefit Cost-Sharing Pension 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 Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Library's employer contributions are recognized when due and the Library has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

Note 2 - Stewardship, Compliance, and Accountability

Our audit for the fiscal year ended June 30, 2017, disclosed no material violations of finance-related legal and contractual provisions.

Note 3 - Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Library are either insured or collateralized by using the Pooling Method. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Library, these deposits are considered to be held by the Library's agent in the Library's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits.

Note 3 - Detail Notes on All Funds (continued)

A. Assets (continued)

1. Deposits (continued)

The State Treasurer does not confirm this information with the Library or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Library under the Pooling Method, the potential exists for under-collateralization. This risk may increase in periods of high cash flows. However, the State Treasurer enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Library has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Library complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2017, the Library's deposits had a carrying amount of \$1,350,502 and a bank balance of \$1,365,920. Of the bank balance, \$315,791 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method. The Library holds no petty cash.

2. Investments Held in Endowment Funds

The Library is the beneficiary of three endowment funds management by the North Carolina Community Foundation. The North Carolina Community Foundation is the legal owner of all assets contributed to the three funds and therefore, these assets are not reported as assets of the Library. At June 30, 2017, the funds had a total value of \$346,683. The Library is entitled to receive grants from the funds and the Library reports the grants as revenues when received. During the year ended June 30, 2017, the Library received \$27,188 in grants from the three funds.

Note 3 - Detail Notes on All Funds (continued)

A. Assets (continued)

3. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Artwork	\$ 28,300	\$	\$	\$ 28,300
Capital assets being depreciated:				
Building improvements	59,619			59,619
Furniture and equipment	564,121	43,406	51,317	556,210
Computer equipment	38,864		33,815	5,049
Vehicles	189,973		23,144	166,829
Collection materials	<u>5,623,365</u>	<u>335,720</u>	<u>3,443,364</u>	<u>2,515,721</u>
Total capital assets being depreciated	<u>6,475,942</u>	<u>379,126</u>	<u>3,551,640</u>	<u>3,303,428</u>
Less accumulated depreciation for:				
Building improvements	45,021	1,607		46,628
Furniture and equipment	464,214	29,030	51,317	441,927
Computer equipment	38,864		33,815	5,049
Vehicles	137,546	8,019	23,144	122,421
Collection materials	<u>3,951,715</u>	<u>487,558</u>	<u>3,316,927</u>	<u>1,122,346</u>
Total accumulated depreciation	<u>4,637,360</u>	<u>\$ 526,214</u>	<u>\$ 3,425,203</u>	<u>1,738,371</u>
Total capital assets being depreciated, net	<u>1,838,582</u>			<u>1,565,057</u>
Governmental activity capital assets, net	<u>\$ 1,866,882</u>			<u>\$ 1,593,357</u>

Depreciation expense was charged to functions of the primary government as follows:

Cultural and recreation	<u>\$ 526,214</u>
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Note 3 - Detail Notes on All Funds (continued)

B. Liabilities

1. Pension Plan and Other Postemployment Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Library is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local government entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members - nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454 or at www.osc.nc.gov.

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined at 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Library employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Library's contractually required contribution rate for the year ended June 30, 2017, was 7.25% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Library were \$113,368 for the year ended June 30, 2017.

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

1. Pension Plan and Other Postemployment Obligations (continued)

a. Local Governmental Employees' Retirement System (continued)

Refunds of Contributions. Library employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By State law, refunds to members with at least five years of service include 4% interest. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

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

At June 30, 2017, the Library reported a liability of \$505,752 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing updated procedures incorporating the actuarial assumptions. The Library's proportion of the net pension liability was based on a projection of the Library's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2016, the Library's proportion was 0.024%, which was an decrease of 0.001% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Library recognized pension expense of \$135,390. At June 30, 2017, the Library reported deferred outflows of resources and deferred inflows of resources related to the pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 9,502	\$ 17,722
Changes of assumptions	34,640	
Net difference between projected and actual earnings on pension plan investments	279,617	
Changes in proportion and differences between Library contributions and proportionate share of contributions	23,207	399
Library contributions subsequent to the measurement date	113,368	
Total	<u>\$ 460,334</u>	<u>\$ 18,121</u>

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

1. Pension Plan and Other Postemployment Obligations (continued)

a. Local Governmental Employees' Retirement System (continued)

\$113,368 reported as deferred outflows of resources related to pensions resulting from Library contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2018	\$	55,836
2019		55,832
2020		136,930
2021		80,247
2022		
Thereafter		
	\$	<u>328,845</u>

Actuarial Assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.75 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

The Plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

1. Pension Plan and Other Postemployment Obligations (continued)

a. Local Governmental Employees' Retirement System (continued)

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	<u>100.0%</u>	

This information above is based on 30 year expectations developed with the consulting actuary for the 2016 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

1. Pension Plan and Other Postemployment Obligations (continued)

a. Local Governmental Employees' Retirement System (continued)

Sensitivity of the Library's proportionate share of the net pension liability to changes in the discount rate. The following presents the Library's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the Library's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	<u>1%</u> Decrease <u>(6.25%)</u>	<u>Discount</u> Rate <u>(7.25%)</u>	<u>1%</u> Increase <u>(8.25%)</u>
Library's proportionate share of the net pension liability (asset)	\$ 1,200,386	\$ 505,752	\$ (74,458)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

b. Supplemental Retirement Income Plan

Plan Description. The Library contributes to the Supplemental Retirement Income Plan of North Carolina (the Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to local government employees that also participate in one of the North Carolina Retirement Systems (such as LGERS). Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan of North Carolina is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Employees may contribute a percentage of their annual gross salary to the Plan as limited by the Internal Revenue Code. The Library matches employee contributions up to 1% of annual gross pay. The Library contributed \$8,890 to the Plan during the year ended June 30, 2017.

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

1. Pension Plan and Other Postemployment Obligations (continued)

c. Other Postemployment Benefits

The Library has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the Library, the Library does not determine the number of eligible participants. The Library has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. The Library considers these contributions to be immaterial.

2. Deferred Outflows and Inflows of Resources

Deferred outflows of resources at June 30, 2017, is comprised of the following:

	<u>Amount</u>
Contributions to pension plan in current fiscal year	\$ 113,368
Pension deferrals	<u>346,966</u>
Total	<u>\$ 460,334</u>

Deferred inflows of resources at June 30, 2017, is comprised of the following:

	<u>Amount</u>
Pension deferrals	<u>\$ 18,121</u>

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

3. 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. The Library participates in one self-funded risk financing pool administered by the North Carolina League of Municipalities (NCLM). Through the pool, the Library obtains workers' compensation coverage up to statutory limits. Excess insurance coverage is purchased by the Board of Trustees of the NCLM to protect against large workers' compensation claims that exceed certain dollar cost levels. Specific information on the limits of the excess coverage policies purchased by the Board of Trustees of the NCLM can be obtained by contacting the Risk Management Services Department of the NCLM. The pool is audited annual by certified public accountants, and the audited financial statements are available to the Library upon request.

The Library maintains general and auto liability and errors and omissions insurance coverage of \$1 million per occurrence with a commercial carrier.

The Library does not carry flood insurance. The respective Counties own the buildings and carry the necessary insurance.

The Library carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage from the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

In accordance with N.C.G.S 159-29, the Library's employees that have access to \$100 or more of the Library's funds at any given time are performance bonded through a commercial surety bond. The Finance Officer is bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$10,000.

4. Long-term Obligations

The following is a summary of changes in the Library's long-term obligations for the fiscal year ended at June 30, 2017:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Net pension liability	\$ 109,955	\$ 395,797	\$	\$ 505,752
Compensated absences	<u>104,993</u>	<u>119,222</u>	<u>117,123</u>	<u>107,092</u>
Total	<u>\$ 214,948</u>	<u>\$ 515,019</u>	<u>\$ 117,123</u>	<u>\$ 612,844</u>

Note 3 - Detail Notes on All Funds (continued)

C. Lease Commitments

The Library leases two buildings, copiers, printers and phone systems under various non-cancelable operating leases. Total rent expense for the year ended June 30, 2017 was \$11,420. The following is a schedule of future minimum lease payments under the non-cancelable operating leases:

<u>Years Ending June 30</u>	<u>Amount</u>
2018	\$ 11,420
2019	11,420
2020	6,996
2021	
2022	
Thereafter	<u> </u>
	<u>\$ 29,836</u>

D. Fund Balance

The Library has a revenue spending policy that provides for programs with multiple revenue sources. The Financial Officer will use resources in the following hierarchy: federal funds, State funds, local non-Library funds, Library funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance, and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Library.

The following schedule provides management and citizens with information on the portion of the General Fund balance that is available for appropriation:

Total fund balance - General Fund	\$ 1,334,315
Less:	
Restricted for:	
Stabilization by State Statute	55,926
Assigned for:	
Subsequent year's expenditures	<u>103,931</u>
Remaining fund balance	<u>\$ 1,174,458</u>

Note 4 - Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

The Library has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

Note 5 - Significant Effects of Subsequent Events

Management has evaluated subsequent events through November 7, 2017, which is the date the financial statements were available to be issued. During the period from June 30, 2017, and through this date, no circumstances occurred that require recognition or disclosure in these financial statements.

REQUIRED SUPPLEMENTARY FINANCIAL DATA

FONTANA REGIONAL LIBRARY, INC.

Required Supplementary Information
 Schedule of the Library's Proportionate Share of the Net Pension Liability
 Local Government Employees' Retirement System
 Last Four Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Library's proportion of the net pension liability	0.0238%	0.0245%	0.0221%	0.0216%
Library's proportion of the net pension liability (asset)	\$ 505,752	\$ 109,955	\$ (130,098)	\$ 260,363
Library's covered-employee payroll	\$1,364,180	\$1,468,043	\$1,453,032	\$1,418,054
Library's proportionate share of the net pension liability as a percentage of its covered-employee payroll	37.07%	7.49%	(8.95%)	18.38%
Plan fiduciary net position as a percentage of the total pension liability	91.47%	98.09%	102.64%	94.35%

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

FONTANA REGIONAL LIBRARY, INC.

Required Supplementary Information
 Schedule of the Library's Contributions
 Local Government Employees' Retirement System
 Last Four Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 113,368	\$ 92,901	\$ 103,791	\$ 102,729
Contributions in relation to the contractually required contribution	<u>113,368</u>	<u>92,901</u>	<u>103,791</u>	<u>102,729</u>
Contribution deficiency (excess)	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>
Library's covered-employee payroll	\$1,534,054	\$1,364,180	\$1,468,043	\$1,453,032
Contributions as a percentage of covered-employee payroll	7.39%	6.81%	7.07%	7.07%

COMPLIANCE SECTION

INDEPENDENT AUDITORS' 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
Fontana Regional Library, Inc.

We have audited, 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, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Fontana Regional Library, Inc., as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Fontana Regional Library, Inc.'s basic financial statements, and have issued our report thereon dated November 7, 2017.

Internal Control over Financial Reporting

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

To the Board of Trustees
Fontana Regional Library, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fontana Regional Library, Inc.'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*.

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.



Asheville, North Carolina
November 7, 2017