



FONTANA REGIONAL LIBRARY, INC.

Bryson City, North Carolina

Financial Statements and
Supplementary Information

Year Ended June 30, 2023

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 Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and the major fund of Fontana Regional Library, Inc. (the "Library"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Fontana Regional Library, Inc. as of June 30, 2023, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Fontana Regional Library, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Audit of the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fontana Regional Library, Inc.'s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fontana Regional Library, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Fontana Regional Library, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 11 and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions on pages 36 and 37, respectively, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a required 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 October 31, 2023, 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 the effectiveness of Fontana Regional Library, Inc.'s 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.

Asheville, North Carolina
October 31, 2023

FINANCIAL SECTION

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, 2023. 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

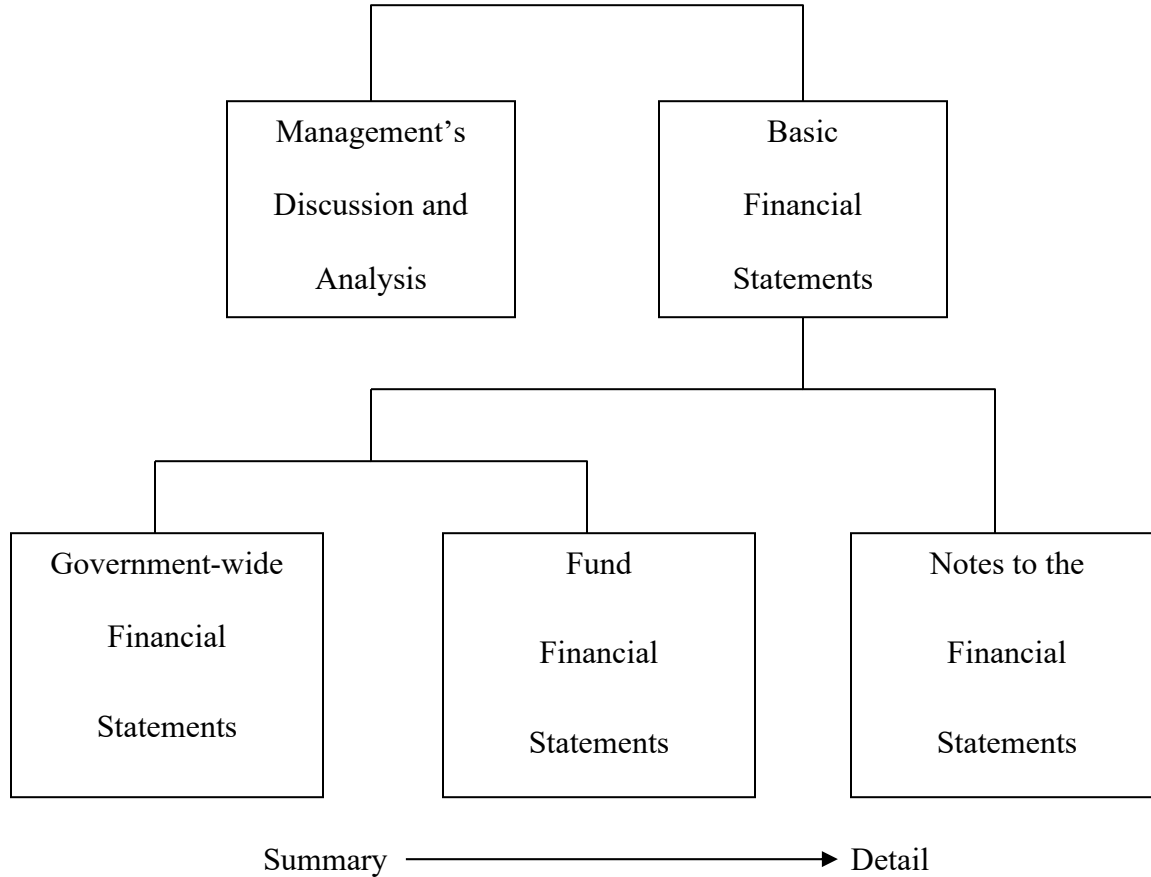
- The assets and deferred outflows of resources of the Library exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$3,195,061 (*net position*).
- The Library's total net position increased by \$264,622, primarily due to an overall decrease in expenses.
- As of the close of the current fiscal year, the Library's governmental funds reported combined ending fund balances of \$2,519,227 with a net increase of \$259,718 in fund balance. Approximately 30% of this total amount, or \$743,172, is nonspendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,520,581 or 136% of total general fund revenues for the fiscal year.
- The Library's total debt increased by \$779,222 (169.6%) during the current fiscal year. The key factor in this increase was an increase in the Library's pension-related debt and subscription based information technology 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 for major governmental funds.

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 General Statutes or the Library's budget ordinance. The Library only has one fund, the General Fund, that is a governmental fund.

Governmental Funds - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. All of the Library's basic services are accounted for in governmental funds. These 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* which 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 fewer 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 its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the Library's patrons, management of the Library, and the decisions of the Board of Trustees about which services to provide and how to pay for them. 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 succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

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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 17 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.

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
Figure 2**

	Governmental Activities	
	2023	2022
Current and other assets	\$ 2,609,762	\$ 2,395,981
Capital assets	1,185,421	1,058,551
Total assets	3,795,183	3,454,532
Deferred outflows of resources	739,254	494,538
Long-term liabilities outstanding	1,238,691	459,469
Other liabilities	90,535	136,472
Total liabilities	1,329,226	595,941
Deferred inflows of resources	10,150	422,690
Net position:		
Net investment in capital assets	1,120,425	1,002,985
Restricted	725,742	623,064
Unrestricted	1,348,894	1,304,390
Total net position	\$ 3,195,061	\$ 2,930,439

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Library exceeded liabilities and deferred inflows by \$3,195,061 as of June 30, 2023. Current and other assets increased \$213,781 from the prior year. A significant contributing factor to the increase was increases in cash and receivables.

Long-term liabilities, which include installment purchases, IT subscriptions, compensated absences, and post employment obligations of the Library increased by \$779,222, due to the increase in IT subscriptions and net pension liability.

FONTANA REGIONAL LIBRARY, INC.

The Library's net position increased by \$264,622 for the fiscal year ended June 30, 2023. By far, of the largest portion reflects the Library's net investment in capital assets (e.g. collection materials, furniture and equipment, and vehicles).

The Library uses these capital assets to provide services to patrons; consequently, these assets are not available for future spending. Although the Library's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

An additional portion of the Library's net position, \$725,742, represents resources that are subject to external restrictions on how they may be used.

Several particular aspects of the Library's financial operations positively influenced the total unrestricted governmental net position including increased County and Municipal appropriations and cost cutting measures to reduce expenditures.

Fontana Regional Library, Inc.'s Changes in Net Position
Figure 3

	Governmental Activities	
	2023	2022
Revenues:		
Program Revenues:		
Charges for services	\$ 52,983	\$ 60,512
Operating grants and contributions	454,745	338,193
Capital grants and contributions	23,054	40,625
General revenues:		
Unrestricted County and municipal appropriations	2,670,642	2,503,356
Unrestricted State appropriations	348,729	326,540
Grants and contributions not restricted to specific programs	225,767	205,828
Universal service refund	173,177	129,540
Sales tax refund	41,552	29,639
Investment earnings	3,939	683
Miscellaneous	(17,156)	2,570
Total revenues	3,977,432	3,637,486
Expenses:		
Cultural and recreation	3,712,810	3,442,569
Increase in net position	264,622	194,917
Net position, beginning	2,930,439	2,735,522
Net position, June 30	\$ 3,195,061	\$ 2,930,439

Governmental activities. Governmental activities increased the Library's net position by \$264,622. This increase in net position was primarily the result of a continued effort to control costs and manage expenditures. Management believes healthy investment in the Library will result in additional revenues.

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Financial Analysis of Library's Funds

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

Governmental Funds. 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, the Library's fund balance available in the General Fund was \$1,520,581, while total fund balance reached \$2,519,277.

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.

There were several reasons the Library revised its budget throughout the year. In total, the Library received increases in estimated revenues and corresponding increases in appropriations in the General Fund.

While the Library was generally in compliance with budgetary requirements there was one instance of spending in excess of the budget amount. The Library had amended the budget for general government expenditures for unexpected amounts it was discovered after year end that a valid current year expenditure for capital outlay related to GASB 96 IT subscription agreement had not been included in the budget amendment. Since the budget could no longer be revised the Library had to report and disclose this \$19,138 excess of expenditures over appropriations. Library management and the Board will more closely review budget reports to ensure compliance in future years.

Capital Asset and Debt Administration

Capital assets. The Library's investment in capital assets as of June 30, 2023, totals \$1,185,421 (net of accumulated depreciation) an increase of 11.99% over the prior year. These assets include artwork, building improvements, furniture and equipment, and collection materials.

While not significant, the implementation of GASB 96 added \$31,301 of right to use assets for IT subscriptions.

FONTANA REGIONAL LIBRARY, INC.

Major capital asset transactions during the year include regular collection additions and disposals.

**Fontana Regional Library’s Capital Assets
(net of depreciation)
Figure 4**

	Governmental Activities	
	2023	2022
Artwork	\$ 28,300	\$ 28,300
Building improvements	3,821	5,095
Furniture and equipment	118,518	81,370
Vehicles	46,977	
Right to use IT subscription	31,301	
Collection materials	956,504	943,786
Total	<u>\$ 1,185,421</u>	<u>\$ 1,058,551</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, 2023, the Library had total debt outstanding of \$1,238,691. All of this debt is backed by the full faith and credit of the Library.

**Fontana Regional Library’s Outstanding Debt
Figure 5**

	Governmental Activities	
	2023	2022
Installment purchases	\$ 37,044	\$ 55,566
Pension related debt (LRS)	1,055,511	287,396
IT subscription liabilities	27,952	
Compensated absences	118,184	116,507
Total	<u>\$ 1,238,691</u>	<u>\$ 459,469</u>

Library’s Outstanding Debt. The Library’s total debt increased by \$779,222 (169.6% over the prior year) during the current fiscal year. The key factor in this increase was an increase in the Library’s pension-related debt of \$768,115.

The implementation of GASB 96 resulted in an increase in IT subscription liabilities of \$27,952, for a subscription arrangement the Library executed in the current year.

Additional information regarding the Library’s long-term debt can be found in Note 3.B.5 of this report.

Economic Factors and Next Year’s Budget

Generally, the Library’s revenues are fairly stable from year to year due to County, municipal, and State appropriations.

FONTANA REGIONAL LIBRARY, INC.

Budget Highlights for the Fiscal Year Ending June 30, 2024

Budgeted revenues in the General Fund are expected to decrease by approximately \$235,000 or a 6% decrease from the adjusted fiscal year 2023 budget. The Library will use budgeted revenues to finance programs currently in place.

Budgeted expenditures in the General Fund are expected to decrease approximately \$350,000, from the final fiscal year 2023 budget. The total expenditures include an anticipated decrease in operational expenses and a decrease in collections expenditures.

To fund the expected decrease in revenues, the Library has chosen to appropriate \$225,747 in fund balance in the fiscal year 2024 budget.

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, 2023

	<u>Governmental Activities</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 2,407,114
Due from other governments	185,218
Prepaid items	<u>17,430</u>
Total current assets	<u>2,609,762</u>
Non-current assets:	
Capital assets:	
Non-depreciable capital assets	28,300
Other capital assets, net of depreciation	1,125,820
Right to use assets, net of amortization	<u>31,301</u>
Total capital assets	<u>1,185,421</u>
Total assets	<u>\$ 3,795,183</u>
Deferred outflows of resources	
Pension deferrals	<u>\$ 739,254</u>
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 90,535
Current portion of long-term liabilities	<u>33,150</u>
Total current liabilities	123,685
Long-term liabilities:	
Due in more than one year	<u>1,205,541</u>
Total liabilities	<u>\$ 1,329,226</u>
Deferred inflows of resources	
Pension deferrals	<u>\$ 10,150</u>
Net position	
Net investment in capital assets	\$ 1,120,425
Restricted for:	
Stabilization by State Statute	185,218
Library construction	524,189
Cultural and recreation	16,335
Unrestricted	<u>1,348,894</u>
Total net position	<u>\$ 3,195,061</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, 2023

<u>Functions/Programs</u>	Program Revenues			Net (Expense) Revenue and Changes in Net Position
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Primary government:				
Governmental activities:				
Cultural and recreation	\$ 3,712,810	\$ 52,983	\$ 454,745	\$ 23,054
				\$ (3,182,028)
General revenues:				
Unrestricted County and municipal appropriations				2,670,642
Unrestricted State appropriations				348,729
Grants and contributions not restricted to specific programs				225,767
Universal service refund				173,177
Sales tax refund				41,552
Unrestricted investment earnings				3,939
Miscellaneous, unrestricted				(17,156)
Total general revenues				3,446,650
Change in net position				264,622
Net position, beginning				2,930,439
Net position, ending				\$ 3,195,061

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

FONTANA REGIONAL LIBRARY, INC.

Balance Sheet
Governmental Funds
June 30, 2023

	Major Fund
	General Fund
Assets	
Cash and cash equivalents	\$ 2,407,114
Due from other governments	185,218
Prepaid asset	17,430
Total assets	\$ 2,609,762
Liabilities	
Accounts payable and accrued liabilities	\$ 90,535
Fund balances	
Nonspendable:	
Prepaid items	17,430
Restricted:	
Stabilization by State Statute	185,218
Library construction	524,189
Cultural and recreation	16,335
Assigned:	
Subsequent year's expenditures	255,474
Unassigned	1,520,581
Total fund balances	2,519,227
Total liabilities and fund balances	\$ 2,609,762
Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:	
Total fund balance, Governmental Funds	\$ 2,519,227
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Gross capital assets at historical cost	2,578,766
Accumulated depreciation	(1,393,345)
Deferred outflows of resources related to pensions are not reported in the funds	739,254
Long-term liabilities used in governmental activities are not financial uses and therefore, are not reported in the funds	
Compensated absences	(118,184)
Net pension liability	(1,055,511)
Installment purchase	(37,044)
IT subscription liabilities	(27,952)
Deferred inflows of resources related to pensions are not reported in the funds	(10,150)
Net position of governmental activities	\$ 3,195,061

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 Balance
Governmental Funds
For the Year Ended June 30, 2023

	Major Fund General Fund
Revenues	
State Aid to Libraries	\$ 348,729
Restricted intergovernmental revenues	213,845
Unrestricted intergovernmental revenues	2,670,642
Restricted donations	240,900
Unrestricted donations	38,882
Friends of the Library donations	186,885
Universal service refund	173,177
Sales tax refund	41,552
Fines and fees	52,983
Investment earnings	3,939
Miscellaneous	13,875
Total revenues	3,985,409
Expenditures	
Cultural and recreation:	
Personnel	2,554,031
Operating	760,276
Collection materials	297,122
Capital outlay	169,008
Total expenditures	3,780,437
Excess of revenues over expenditures	204,972
Other financing sources (uses)	
Gain on disposal	7,794
IT subscription agreement	46,952
Total other financing sources (uses)	54,746
Net change in fund balance	259,718
Fund balance, beginning	2,259,509
Fund balance, ending	\$ 2,519,227

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, 2023

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

Net change in fund balance, total Governmental Funds	\$	259,718
<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 expenditures which were capitalized		408,215
Depreciation expense		(273,821)
Right to use subscription IT asset capital outlay expenditures which were capitalized		46,952
Amortization expense for intangible assets		(15,651)
The net book value of capital assets disposed of during the year are not capitalized on the modified accrual basis		(38,825)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		200,326
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of government funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Principal payments on installment purchases		37,522
Right to use subscription IT lease liability recognized		(46,952)
<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>		
Change in accrued compensated absences		(1,677)
Pension expense		(311,185)
Total changes in net position of governmental activities	\$	<u>264,622</u>

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

FONTANA REGIONAL LIBRARY, INC.

General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
State Aid to Libraries	\$ 326,544	\$ 348,766	\$ 348,729	\$ (37)
Restricted intergovernmental revenues	193,661	223,887	213,845	(10,042)
Unrestricted intergovernmental revenues	2,640,842	2,670,842	2,670,642	(200)
Restricted donations	106,130	287,794	240,900	(46,894)
Unrestricted donations	11,725	55,338	38,882	(16,456)
Friends of the Library donations	127,000	185,799	186,885	1,086
Universal service refund	195,392	195,392	173,177	(22,215)
Sales tax refund	26,000	29,500	41,552	12,052
Fines and fees	38,100	49,068	52,983	3,915
Investment earnings	600	2,304	3,939	1,635
Miscellaneous	1,641	1,364	13,875	12,511
Total revenues	3,667,635	4,050,054	3,985,409	(64,645)
Expenditures				
Culture and recreation:				
Personnel	2,687,947	2,758,345	2,554,031	204,314
Operating	884,226	1,045,281	760,276	285,005
Collection materials	287,589	348,809	297,122	51,687
Contingency	94,350	92,350		92,350
Capital outlay		149,870	169,008	(19,138)
Total expenditures	3,954,112	4,394,655	3,780,437	614,218
Revenues over (under) expenditures	(286,477)	(344,601)	204,972	549,573
Other financing sources (uses)				
Gain on disposal of assets	2,200	8,993	7,794	(1,199)
IT subscription agreement			46,952	46,952
Fund balance appropriated	284,277	335,208		(335,208)
Total other financing sources (uses)	284,277	344,201	54,746	(289,455)
Net change in fund balance	\$	\$ (400)	259,718	\$ 260,118
Fund balance, beginning			2,259,509	
Fund balance, ending			\$ 2,519,277	

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

FONTANA REGIONAL LIBRARY, INC.

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2023

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Fontana Regional Library, Inc. 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. (the “Library”) 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 specific function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. 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 specific program. Revenues that are not classified as program revenues and 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 Library has no proprietary or fiduciary funds to report. The emphasis of the fund financial statements is on major governmental fund.

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 primary revenue sources are State and county grants, donations, and fines and fees. The primary expenditures are for cultural and recreation.

Note 1 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the Library are maintained during the year using the modified accrual basis of accounting.

Government-wide Financial Statements. 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.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

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. 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. Issuance of general long-term debt and acquisitions under capital leases and IT subscriptions are reported as other financing sources.

The Library considers all revenues to be available if they are collected within 90 days after year-end. 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. All annual appropriations lapse at the fiscal year-end. The budget is prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level. All amendments must be approved by the governing board and the 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.

State law [G.S. 159-30(c)] authorizes the Library to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the State of North Carolina, bonds and notes of any North Carolina local government or public authority, obligations of certain non-guaranteed federal agencies, certain high quality issues or commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT).

The Library held no investments at June 30, 2023, but is the beneficiary of three endowment funds managed by the North Carolina Community Foundation, as described in Note 3.A.2.

2. Cash and Cash Equivalents

The Library considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

3. Prepaid Items

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

4. Capital Assets

Capital assets are defined by the Library as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. In addition, collection materials that are purchased and used in large quantities are capitalized. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

The Library's capital assets also include a right to use asset. This right to use asset arose in association with an agreement where the Library reports an Information Technology (IT) Subscription in accordance with the requirements of GASB 96.

Note 1 - Summary of Significant Accounting Policies (continued)

4. Capital Assets (continued)

The right to use IT subscription assets are initially measured at an amount equal to the initial measurement of the subscription liability plus any subscription payments made at the start of the subscription term, if applicable, plus capitalizable initial implementation costs at the start of the subscription term, less any incentives received from the IT subscription vendor at the start of the subscription term. Subscription payments, as well as payments for capitalizable implementation costs made before the start of the subscription term should be reported as a prepayment (asset). Such prepayments should be reduced by any incentives received from the same vendor before the start of the subscription term if a right of offset exists. The net amount of the prepayments and incentives should be reported as an asset or liability, as appropriate, before the start of the subscription term at which time the amount should be included in the initial measurement of the subscription asset. The right to use subscription assets should be amortized on a straight-line basis over the subscription term. Due to the subscription beginning during the current fiscal year, a prior period restatement was not necessary.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Building improvements	15 years
Furniture and equipment	5-10 years
Computer equipment	5 years
Vehicles	5 years
Collection materials	7 years

5. Deferred Outflows/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 one item that meets this criterion - pension deferrals. In addition to liabilities, the statement of net position will sometimes report 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 the 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, the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance cost, whether withheld from the actual debt proceeds received or not, are reported as debt service expenditures.

Note 1 - Summary of Significant Accounting Policies (continued)

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's government-wide statements, 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.

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 does not have any obligation for the accumulated sick leave until it is taken, no accrual for sick leave has been made.

8. Net Position/Fund Balances

Net Position

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

Fund Balances

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.

Prepaid items - the portion of fund balance that is not an available resource because it represents the year-end balance of ending prepaid items, which are not spendable resources.

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

Note 1 - Summary of Significant Accounting Policies (continued)

Restricted for Stabilization by State Statute - North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by State statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by State statute".

Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget. Per GASB guidance, RSS is considered a resource upon which a restriction is "imposed by law through constitutional provisions or enabling legislation." RSS is reduced by inventories and prepaids as they are classified as non-spendable. Outstanding Encumbrances are included within RSS. RSS is included as a component of Restricted Net position and Restricted fund balance on the face of the balance sheet.

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

Restricted for Cultural and Recreation - portion of fund balance that is restricted by external sources for cultural and recreation expenditures.

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). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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. The governing body approves the appropriation.

Unassigned fund balance - the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds and that has not been reported as nonspendable fund balance..

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.

Note 1 - Summary of Significant Accounting Policies (continued)

The Library has also adopted a minimum fund balance policy for the general fund which instructs management to conduct the business of the Library in such a manner that available fund balance is at least equal to or greater than 25% of operating revenues. Any portion of the general fund balance in excess of 25% of operating revenues may be appropriated for one-time expenditures and may not be used for any purpose that would obligate the Library in a future budget.

9. Defined Benefit Cost-Sharing 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

A. Budget Ordinance Violation

For the year ended June 30, 2023, the Library's amended budget ordinance did not balance by \$400 due to budgeted expenditures exceeding budgeted revenues. In accordance with N.C.G.S. 159-8 each local government and public authority shall operate under an annual balanced budget ordinance. A budget ordinance is balanced when the sum of estimated net revenues and appropriated fund balances is equal to appropriations.

For the year ended June 30, 2023, the expenditures for the Library's General Fund for Capital Outlay exceeded authorized appropriations by \$19,138. This over expenditure is primarily related to subscription IT asset capitalization not being included in the budget.

Corrective Action Plans

Management of the Library is aware that the amended budget was out of balance by \$400 due to a formula error in the budget spreadsheet. This error has been corrected in a subsequent budget amendment.

Management and the Board of Trustees will monitor budget to actual line items more closely and perform budget re-allocations or amendments as soon as possible upon receiving information that variances in the budgeted amounts exist.

Note 3 - Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Library are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Library's agent in the Library's name. 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. The State Treasurer does not confirm this information with the Library or the escrow agent. Because of the inability to measure the exact amounts 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 of North Carolina 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, 2023, the Library's deposits had a carrying amount of \$2,407,114 and a bank balance of \$2,432,970. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2023, the Library's petty cash fund totaled \$650.

2. Beneficial Interest in Endowment Funds

The Library is the beneficiary of three endowment funds managed 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, 2023, the funds had a total value of \$415,272. The Library is entitled to receive grants from these funds, and the Library reports the grants as revenues when received. During the year ended June 30, 2023, the Library received \$11,320 in grants from these funds.

Note 3 - Detail Notes on All Funds (continued)

3. Capital Assets

Capital asset activity for the year ended June 30, 2023, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Artwork	\$ 28,300	\$ _____	\$ _____	\$ 28,300
Capital assets being depreciated:				
Building improvements	54,619			54,619
Furniture and equipment	665,504	71,724	12,779	724,449
Vehicles	166,829	50,332	101,295	115,866
Collection materials	<u>1,642,298</u>	<u>286,159</u>	<u>319,877</u>	<u>1,608,580</u>
Total capital assets being depreciated	<u>2,529,250</u>	<u>\$ 408,215</u>	<u>\$ 433,951</u>	<u>2,503,514</u>
Less accumulated depreciation for:				
Building improvements	49,524	\$ 1,274	\$ _____	50,798
Furniture and equipment	584,134	34,576	12,779	605,931
Vehicles	166,829	3,355	101,295	68,889
Collection materials	<u>698,512</u>	<u>234,616</u>	<u>281,052</u>	<u>652,076</u>
Total accumulated depreciation	<u>1,498,999</u>	<u>273,821</u>	<u>395,126</u>	<u>1,377,694</u>
Total capital assets being depreciated, net	<u>1,030,251</u>	<u>\$ 134,394</u>	<u>\$ 38,825</u>	<u>1,125,820</u>
Capital assets being amortized:				
Right to use assets:				
IT subscriptions	_____	\$ 46,952	\$ _____	46,952
Less accumulated amortization for:				
Right to use assets:				
IT subscriptions	_____	15,651	_____	15,651
Total capital assets being amortized, net	_____	<u>\$ 31,301</u>	<u>\$ _____</u>	<u>31,301</u>
Capital assets, net	<u>\$ 1,058,551</u>			<u>\$ 1,185,421</u>

Depreciation expense was charged to the Cultural and Recreation function of the primary government.

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities

1. Pension Plan and 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 Annual Comprehensive Financial Report for the State of North Carolina. The State's Annual Comprehensive Financial Report 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 as 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 5 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 5 years of creditable service (age 55 for firefighters). 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 (15 years for firefighters and rescue squad members who are killed in the line of duty) or have completed 5 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, 2023, was 12.10% 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 \$200,326 for the year ended June 30, 2023.

Note 3 - Detail Notes on All Funds (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, 2023, the Library reported a liability of \$1,055,511 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2021. The total pension liability was then rolled forward to the measurement date of June 30, 2022, 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, 2022 (measurement date), the Library's proportion was 0.01871%, which was an decrease of 0.00003% from its proportion measured as of June 30, 2022. For the year ended June 30, 2023, the Library recognized pension expense of \$311,185. At June 30, 2023, the Library reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 45,481	\$ 4,459
Changes of assumptions	105,315	
Net difference between projected and actual earnings on pension plan investments	348,857	
Changes in proportion and differences between Library contributions and proportionate share of contributions	39,274	5,691
Library contributions subsequent to the measurement date	<u>200,326</u>	
Total	<u>\$ 739,254</u>	<u>\$ 10,150</u>

Note 3 - Detail Notes on All Funds (continued)

\$200,326 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, 2023. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2024	\$	169,086
2025		152,296
2026		41,194
2027		166,202
2028		-
Thereafter		-

Actuarial Assumptions. The total pension liability in the December 31, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.25 to 8.25 percent, including inflation and productivity factor
Investment rate of return	6.50 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, 2021 valuation were based on the results of an actuarial experience study for the period January 1, 2011 through December 31, 2015.

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

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 weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Note 3 - Detail Notes on All Funds (continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2022 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	33.0%	0.9%
Global Equity	38.0%	6.5%
Real Estate	8.0%	5.9%
Alternatives	8.0%	8.2%
Credit	7.0%	5.0%
Inflation Protection	6.0%	2.7%
Total	100.0%	

This information above is based on 30-year expectations developed with the consulting actuary for the 2021 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 2.50%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 6.50%. 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.

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 liability calculated using the discount rate of 6.50 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 (5.50 percent) or one percentage point higher (7.50 percent) than the current rate:

	1% Decrease (5.50%)	Discount Rate (6.50%)	1% Increase (7.50%)
Library’s proportionate share of the net pension liability (asset)	\$ 1,905,062	\$ 1,055,511	\$ 355,432

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

Note 3 - Detail Notes on All Funds (continued)

b. Supplemental Retirement Income Plan

Plan Description. The Library contributes to the Supplemental Retirement Income Plan (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 employed by the Library. 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 Annual Comprehensive Financial Report for the State of North Carolina. The State's Annual Comprehensive Financial Report includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income 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.

Funding policy. 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.

Contributions. The Library made contributions of \$9,952 to the Plan during the year ended June 30, 2023. No amounts were forfeited.

c. Other Employment 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. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Library considers these contributions to be immaterial.

Note 3 - Detail Notes on All Funds (continued)

2. Deferred Outflows and Inflows of Resources

Deferred outflows of resources reported on the Statement of Net Position are comprised of the following:

	<u>Amount</u>
Contributions to pension plan in current fiscal year	\$ 200,326
Differences between expected and actual experience	45,481
Changes of assumptions	105,316
Net difference between projected and actual earnings on pension plan investments	348,857
Changes in proportion and differences between employer contributions and proportionate share of contributions	39,274
Total	<u>\$ 739,254</u>

Deferred inflows of resources at year-end are comprised of the following:

	<u>Statement of Net Position</u>	<u>General Fund Balance Sheet</u>
Differences between expected and actual experience	\$ 4,459	\$
Changes in proportion and differences between employer contributions and proportionate share of contributions	5,691	
Total	<u>\$ 10,150</u>	<u>\$</u>

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. Through the pool, the Library obtains workers' compensation coverage up to statutory limits. Excess insurance coverage is purchased by the Board of Trustees to protect against large workers' compensation claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pool is audited annually 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 insurance coverage in any of the past three fiscal years.

Note 3 - Detail Notes on All Funds (continued)

In accordance with G.S 159-29, the Library’s employees that have access to \$100 or more at any given time of the Library’s funds 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. Claims, Judgements, and Contingent Liabilities

At June 30, 2023, the Library was not a defendant to any lawsuits.

5. Long-term Obligations

a. Installment Purchase

The Library has entered into an agreement to finance the purchase of copiers and related equipment. The agreement was executed in July 2020 to purchase copiers and related equipment and requires 60 monthly payments of \$1,544. No interest was charged for this agreement. In this agreement, title passes to the Library at the end of the term and there are no termination options.

The following is an analysis of the assets recorded under installment purchases as of June 30, 2023:

<u>Class of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Equipment	<u>\$ 92,610</u>	<u>\$ 55,566</u>	<u>\$ 37,044</u>

Annual debt service payments of the installment purchase as of June 30, 2023, were as follows:

<u>Years Ending June 30</u>	
2024	\$ 18,522
2025	18,522
2026	
2027	
2028	
<u>Total</u>	<u>\$ 37,044</u>

Note 3 - Detail Notes on All Funds (continued)

b. Subscriptions

For the year ended June 30, 2023 the City implemented the requirements of GASB Statement No. 96, Subscription-Based Information Technology Arrangements (Subscriptions). The Statement provides a definition of Subscriptions and provides uniform guidance for accounting and financial reporting for such transactions. The guidance will decrease diversity in the accounting and financial reporting for these transactions, thereby increasing comparability in financial reporting among governments. Further, the reporting of a subscription asset (a right-to-use intangible capital asset) and a subscription liability will enhance the relevance and reliability of the financial statements.

During the current year the Library entered into a new Subscription for web-based accounting software. The term of the agreement is three years. The Subscription does not have a stated interest rate. Accordingly, the Library's estimated incremental borrowing rate of 5.50% was used to discount the subscription payments. The initial liability for the subscription was \$46,952. The liability balance remaining at June 30, 2023, was \$30,401.

The future minimum subscription obligations and the net present value of these minimum payments as of June 30, 2023, were as follows:

<u>Years Ending June 30</u>	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Total</u>
2024	\$ 14,628	\$ 1,672	\$ 16,300
2025	13,324	776	14,100
2026			
2027			
2028			
Total	\$ 27,952	\$ 2,448	\$ 30,400

c. Changes in Long-Term Liabilities

Compensated absences for governmental activities have typically been liquidated in the General Fund.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion of Balance</u>
Governmental activities:					
Installment purchases	\$ 55,566	\$	\$ 18,522	\$ 37,044	\$ 18,522
IT Subscription liabilities		46,952	19,000	27,952	14,628
Net pension liability	287,396	768,115		1,055,511	
Compensated absences	<u>116,507</u>	<u>1,677</u>		<u>118,184</u>	
Total	<u>\$ 459,469</u>	<u>\$ 816,744</u>	<u>\$ 37,522</u>	<u>\$1,238,691</u>	<u>\$ 33,150</u>

Note 3 - Detail Notes on All Funds (continued)

C. Interfund Balances and Activity

Interfund balances resulted from a time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made

There were no balances due to/from other funds at June 30, 2023 and there were no transfers to/from other funds during the year ended June 30, 2023.

D. Fund Balance

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	\$ 2,519,227
Less:	
Prepaid items	17,430
Stabilization by State Statute	185,218
Cultural and recreation	16,335
Marianna Black Library construction	524,189
Appropriated fund balance in 2023 budget	255,474
Working capital / fund balance policy	<u>280,217</u>
Remaining fund balance (deficit)	<u>\$ 1,240,364</u>

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end. There were no outstanding encumbrances at June 30, 2023.

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 October 31, 2023, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

FONTANA REGIONAL LIBRARY, INC.

Library's Proportionate Share of the Net Pension Liability (Asset)
Last Nine Fiscal Years*
Local Government Employees' Retirement System

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Library's proportion of the net pension liability (%)	0.01871%	0.01874%	0.01677%	0.01882%	0.0213%	0.0230%	0.0238%	0.0245%	0.0221%
Library's proportion of the net pension liability (asset) (\$)	\$ 1,055,511	\$ 287,396	\$ 599,264	\$ 513,960	\$ 505,546	\$ 350,612	\$ 505,752	\$ 109,955	\$ (130,098)
Library's covered-employee payroll	\$ 1,660,371	\$ 1,518,020	\$ 1,574,430	\$ 1,408,452	\$ 1,514,055	\$ 1,540,715	\$ 1,534,054	\$ 1,364,180	\$ 1,468,043
Library's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	63.57%	18.93%	38.06%	36.49%	33.39%	22.76%	32.97%	8.06%	(8.86%)
Plan fiduciary net position as a percentage of the total pension liability**	84.14%	95.51%	88.61%	90.86%	91.63%	94.18%	91.47%	98.09%	99.07%

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

** This will be the same percentage for all participant employers in the LGERS plan.

FONTANA REGIONAL LIBRARY, INC.

Schedule of the Library's Contributions
Last Nine Fiscal Years
Local Government Employees' Retirement System

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 200,326	\$ 172,295	\$ 159,805	\$ 127,747	\$ 118,850	\$ 117,248	\$ 113,368	\$ 92,901	\$ 103,791
Contributions in relation to the contractually required contribution	<u>200,326</u>	<u>172,295</u>	<u>159,805</u>	<u>127,747</u>	<u>118,850</u>	<u>117,248</u>	<u>113,368</u>	<u>92,901</u>	<u>103,791</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Library's covered payroll	<u>\$ 1,660,371</u>	<u>\$ 1,518,020</u>	<u>\$ 1,574,430</u>	<u>\$ 1,408,452</u>	<u>\$ 1,514,055</u>	<u>\$ 1,540,715</u>	<u>\$ 1,534,054</u>	<u>\$ 1,364,180</u>	<u>\$ 1,468,043</u>
Contributions as a percentage of covered payroll	12.07%	11.35%	10.15%	9.07%	7.85%	7.61%	7.39%	6.81%	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.
Bryson City, North Carolina

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 and the major fund of Fontana Regional Library, Inc., as of and for the year ended June 30, 2023, 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 October 31, 2023.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

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

Report on 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 financial statements. 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.

CARTER, P.C.

Asheville, North Carolina
October 31, 2023