

NORTH CENTRAL KANSAS LIBRARIES SYSTEM

Manhattan, Kansas

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

For the Year Ended December 31, 2018

VARNEY & ASSOCIATES, CPAs, LLC
Manhattan, Kansas

NORTH CENTRAL KANSAS LIBRARIES SYSTEM

Manhattan, Kansas
As of December 31, 2018

EXECUTIVE COMMITTEE

Carolyn Elliott
Shanda Cramer
Mary White
Janice Lyhane
Shannon Reid-Wheat
Gwen Owens-Wilson
Sharon Pierce
Gerald Meyers
Robin Ottoson
Judith Cremer
Susan Davis
Susan Moyer
Alisha Paddock

OFFICERS

President - Judith Cremer
Vice-President - Susan Moyer
Secretary - Treasurer - Mary White

DIRECTOR

Linda Knupp

NORTH CENTRAL KANSAS LIBRARIES SYSTEM

Manhattan, Kansas

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June 5, 2019

Executive Committee
North Central Kansas Libraries System
Manhattan, Kansas

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Central Kansas Libraries System (the Libraries System), as of and for the year ended December 31, 2018, which collectively comprise the Libraries System's basic financial statements and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Libraries System, as of December 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report

June 5, 2019
North Central Kansas Libraries System
(Continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

Vannoy & Associates CPAs LLC

Certified Public Accountants
Manhattan, Kansas

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
 Manhattan, Kansas
MANAGEMENT DISCUSSION AND ANALYSIS
 For the Year Ended December 31, 2018

General Information

This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include information that presents two different views of the Libraries System:

The Statement of Net Position and Statement of Activities are the *government-wide financial statements*. They provide information about the activities of the Libraries System as a whole and present a longer-term view of the Libraries System’s finances.

The Balance Sheet and Statement of Revenue, Expenditures, and Changes in Fund Balance are the *fund financial statements*. These statements focus on current financial resources and provide a more detailed view about the accountability of the Libraries System’s sources and uses of funds for all governmental funds.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Throughout this discussion and analysis, financial figures have been rounded to the nearest \$1,000 unit.

Financial Analysis of the Libraries System as a Whole

The following significant changes in net position occurred during 2018:

- *Current Assets.* Current assets increased by \$217,000 which is largely related to budgeted property taxes for 2018 which are substantially higher than that of the 2017 level. This change is consistent with the increase in deferred inflows of resources related to property taxes.

The following table is presented for comparative analysis of the Libraries System government-wide net position:

	2018	2017
Assets		
Current assets	\$ 1,651,000	\$ 1,434,000
Capital assets - Net	12,000	12,000
Total Assets	\$ 1,663,000	\$ 1,446,000
Liabilities		
Current liabilities	\$ -	7,000
Long-term liabilities	25,000	28,000
Total Liabilities	\$ 25,000	\$ 35,000
Deferred Inflows of Resources		
Unavailable revenue - Property taxes	\$ 1,121,000	\$ 1,074,000
Net Position		
Investment in capital assets	\$ 12,000	\$ 12,000
Restricted	50,000	58,000
Unrestricted	455,000	267,000
Total Net Position	\$ 517,000	\$ 337,000
Total Liabilities, Deferred Inflows and Net Position	\$ 1,663,000	\$ 1,446,000

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
Manhattan, Kansas
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2018

Financial Analysis of the Libraries System as a Whole (Continued)

The Libraries System government-wide net position increased by approximately \$179,000 during the year ended December 31, 2018. This change is primarily explained by the increase in property tax revenue.

The following table is presented for comparative analysis of the Libraries System government-wide changes in net position:

	2018	2017
Revenue		
Program revenues	\$ 137,000	\$ 131,000
General revenues	1,146,000	1,147,000
Total Revenue	<u>\$ 1,283,000</u>	<u>\$ 1,278,000</u>
 Expenses	 <u>1,104,000</u>	 <u>1,124,000</u>
 Change in Net Position	 <u><u>\$ 179,000</u></u>	 <u><u>\$ 154,000</u></u>

Financial Analysis of Funds within the Libraries System

The Libraries System operates a series of funds of which the General Fund and Employee Benefit Fund are financed primarily through property tax levy each year. The remaining funds are financed primarily through gifts, grants and charges for service.

The General Fund experienced a significant \$57,000 increase in fund balance during 2018. This increase is attributable to operating at less than budgeted levels, which were planned to be higher for 2018 such that additional funding would be available for transfer to the Capital Improvement Fund. The budget surplus for 2018 of \$216,000 has been reserved for use in the 2019 budget year and beyond.

The Employee Benefits Fund was operated within budgeted limits for 2018. The costs of employee benefits increased by 2% from 2017 to 2018. Much of this cost is attributable to the increases in employer payments for health insurance premiums.

Other governmental funds were operated with an ending \$47,000 fund balance which is to be carried over to 2019 and is restricted to use for member library local funds.

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
Manhattan, Kansas
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
For the Year Ended December 31, 2018

Factors Bearing on the Future of the Libraries System

At the time these financial statements were prepared and audited, the Libraries System was aware of the following items that could have significant impact on its finances in the future:

- Legislative activity at the state and federal level could impact the governance and support for regional library systems.
- Manhattan Public Library bears responsibility for the net pension liability of NCKLS employees that participate in the Kansas Public Employees Retirement System (KPERS).
- Continued low interest rates will have a negative impact on future revenue derived from investment of idle funds.
- The Libraries System continues to closely monitor external factors such as (1) the costs of facilities and employees which are shared with the Manhattan Public Library, (2) medical insurance, (3) other employee benefit costs, and (4) third-party service charges. Currently, there are no known factors which would be expected to cause significant fluctuations in operating costs.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Libraries System finances and to demonstrate accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

NCKLS Office
629 Poyntz Avenue
Manhattan, KS 66502

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
Manhattan, Kansas
STATEMENT OF NET POSITION
December 31, 2018

ASSETS

Assets

Cash and cash equivalents	\$ 521,264
Taxes receivable	1,120,950
Accounts receivable	120
Prepaid expense	8,879
Capital assets - Net	11,784
TOTAL ASSETS	<u>\$ 1,662,997</u>

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

Liabilities

Accounts payable	\$ 424
Compensated absences	25,255
Total Liabilities	<u>\$ 25,679</u>

Deferred Inflows of Resources

Unavailable revenue - Property taxes	<u>\$ 1,120,950</u>
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Net Position

Investment in capital assets	\$ 11,784
Restricted	49,854
Unrestricted	454,730
Total Net Position	<u>\$ 516,368</u>

TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION

\$ 1,662,997

Financial Statements

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
Manhattan, Kansas
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018

Expenses

Library Operations	
Personnel services	\$ 632,802
Commodities	137,033
Contractual services	174,225
Grants issued to others	151,258
Depreciation	8,361
Total Expenses	<u>\$ 1,103,679</u>

Program Revenues

Charges for services	\$ 4,806
Operating grants and contributions	131,845
Total Program Revenues	<u>\$ 136,651</u>

Net Program Expenses

\$ 967,028

General Revenues

Property taxes	\$ 1,137,719
Interest	8,574
Total General Revenues	<u>\$ 1,146,293</u>

Change in Net Position

\$ 179,265

NET POSITION - BEGINNING

337,103

NET POSITION - ENDING

\$ 516,368

Financial Statements

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
 Manhattan, Kansas
BALANCE SHEET - GOVERNMENTAL FUNDS
 December 31, 2018

	General Fund	Employee	Capital	State Aid Fund	Other Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 207,941	\$ 89,515	\$ 176,736	\$ -	\$ 47,072	\$ 521,264
Taxes receivable	920,000	200,950	-	-	-	1,120,950
Accounts receivable	120	-	-	-	-	120
Prepaid expense	8,879	-	-	-	-	8,879
Total Assets	<u>\$ 1,136,940</u>	<u>\$ 290,465</u>	<u>\$ 176,736</u>	<u>\$ -</u>	<u>\$ 47,072</u>	<u>\$ 1,651,213</u>
LIABILITIES						
Accounts payable	\$ 424	\$ -	\$ -	\$ -	\$ -	\$ 424
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - Property taxes	\$ 920,000	\$ 200,950	\$ -	\$ -	\$ -	\$ 1,120,950
Fund Balance						
Restricted	\$ -	\$ -	\$ -	\$ -	\$ 47,072	\$ 47,072
Assigned	-	89,515	176,736	-	-	266,251
Unassigned	216,516	-	-	-	-	216,516
Total Fund Balance	<u>\$ 216,516</u>	<u>\$ 89,515</u>	<u>\$ 176,736</u>	<u>\$ -</u>	<u>\$ 47,072</u>	<u>\$ 529,839</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE	<u>\$ 1,136,940</u>	<u>\$ 290,465</u>	<u>\$ 176,736</u>	<u>\$ -</u>	<u>\$ 47,072</u>	<u>\$ 1,651,213</u>

Total Fund Balance - Modified Accrual Basis \$ 529,839

Amounts reported in the statement of net position are different because:

Capital assets are not financial resources and are not reported in the funds	11,784
Compensated absences are included as a liability	<u>(25,255)</u>

Net Position of Primary Government - Full Accrual Basis \$ 516,368

The accompanying notes are an integral part of these financial statements.
 See Independent Auditor's Report.

Financial Statements

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
Manhattan, Kansas
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2018

	General Fund	Employee Benefit Fund	Capital Improvement Fund	State Aid Fund	Other Governmental Funds	Total
Revenue						
Property taxes	\$ 916,176	\$ 221,543	\$ -	\$ -	\$ -	\$ 1,137,719
Charges for services	4,806	-	-	-	-	4,806
Intergovernmental	11,626	-	-	50,400	69,819	131,845
Interest	8,574	-	-	-	-	8,574
Total Revenue	<u>\$ 941,182</u>	<u>\$ 221,543</u>	<u>\$ -</u>	<u>\$ 50,400</u>	<u>\$ 69,819</u>	<u>\$ 1,282,944</u>
Expenditures						
Personnel services	\$ 454,049	\$ 181,835	\$ -	\$ -	\$ -	\$ 635,884
Commodities	4,303	-	-	60,129	72,601	137,033
Contractual services	157,501	-	-	(9,729)	-	147,772
Grants issued to others	151,258	-	-	-	-	151,258
Capital outlay	33,232	-	1,471	-	-	34,703
Total Expenditures	<u>\$ 800,343</u>	<u>\$ 181,835</u>	<u>\$ 1,471</u>	<u>\$ 50,400</u>	<u>\$ 72,601</u>	<u>\$ 1,106,650</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>\$ 140,839</u>	<u>\$ 39,708</u>	<u>\$ (1,471)</u>	<u>\$ -</u>	<u>\$ (2,782)</u>	<u>\$ 176,294</u>
Other Financing Sources (Uses)						
Transfers in	\$ -	\$ -	\$ 83,600	\$ -	\$ -	\$ 83,600
Transfers out	(83,600)	-	-	-	-	(83,600)
Total Other Financing Sources (Uses)	<u>\$ (83,600)</u>	<u>\$ -</u>	<u>\$ 83,600</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(Continued)

The accompanying notes are an integral part of these financial statements.
See Independent Auditor's Report.

Financial Statements

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
 Manhattan, Kansas
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (CONTINUED)
 For the Year Ended December 31, 2018

	<u>General Fund</u>	<u>Employee Benefit Fund</u>	<u>Capital Improvement Fund</u>	<u>State Aid Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Net Change in Fund Balance	\$ 57,239	\$ 39,708	\$ 82,129	\$ -	\$ (2,782)	\$ 176,294
FUND BALANCE - BEGINNING	<u>159,277</u>	<u>49,807</u>	<u>94,607</u>	<u>-</u>	<u>49,854</u>	<u>353,545</u>
FUND BALANCE - ENDING	<u><u>\$ 216,516</u></u>	<u><u>\$ 89,515</u></u>	<u><u>\$ 176,736</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 47,072</u></u>	<u><u>\$ 529,839</u></u>

Net Change in Fund Balances - Modified Accrual Basis	<u><u>Total</u></u>
	\$ 176,294

Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the funds but are recorded as capital assets with an annual charge to depreciation expense at the government wide reporting level

Capital outlay expenditures	8,250
Depreciation expense	(8,361)

Changes in the liability for compensated absence are reported as adjustments to expense at the government wide reporting level but are not reported in the funds

3,082

Change in Net Position of Primary Government - Full Accrual Basis	<u><u>\$ 179,265</u></u>
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The accompanying notes are an integral part of these financial statements.
 See Independent Auditor's Report.

Financial Statements

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
 Manhattan, Kansas
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)
 For the Year Ended December 31, 2018

	General Fund			Employee Benefits		
	Budget	Actual	Favorable (Unfavorable) Variance	Budget	Actual	Favorable (Unfavorable) Variance
REVENUE						
Property taxes	\$ 894,496	\$ 916,176	\$ 21,680	\$ 218,397	\$ 221,543	\$ 3,146
Charges for services	5,000	4,806	(194)	-	-	-
Intergovernmental	11,626	11,626	-	-	-	-
Interest	2,024	8,574	6,550	-	-	-
Miscellaneous	50	-	(50)	-	-	-
Total Revenue	\$ 913,196	\$ 941,182	\$ 27,986	\$ 218,397	\$ 221,543	\$ 3,146
EXPENDITURES						
Personnel services	\$ 500,000	\$ 454,049	\$ 45,951	\$ 232,050	\$ 181,835	\$ 50,215
Commodities	88,750	2,723	86,027	-	-	-
Contractual services	143,450	149,887	(6,437)	-	-	-
Grants issued to others	224,250	151,258	72,992	-	-	-
Capital Outlay	-	33,232	(33,232)	-	-	-
Transfer	75,000	83,600	(8,600)	-	-	-
Total Expenditures	\$ 1,031,450	\$ 874,749	\$ 156,701	\$ 232,050	\$ 181,835	\$ 50,215
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (118,254)	\$ 66,433	\$ 184,687	\$ (13,653)	\$ 39,708	\$ 53,361
FUND BALANCE - BEGINNING OF YEAR	37,572	140,965		88,483	49,807	
FUND BALANCE - END OF YEAR	\$ (80,682)	\$ 207,398		\$ 74,830	\$ 89,515	
ADJUSTMENTS TO GAAP - PREPAID EXPENSES		8,879			-	
ADJUSTMENTS TO GAAP - ENCUMBRANCES		239			-	
FUND BALANCE - GAAP BASIS		\$ 216,516			\$ 89,515	

The accompanying notes are an integral part of these financial statements.
 See Independent Auditor's Report.

Financial Statements

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies
Reporting Entity

The North Central Kansas Libraries System (the Libraries System) is a municipal entity established by the State of Kansas and governed by an appointed board. The Libraries System is primarily funded through tax levies, grants, and fees. Revenue is used to assist participating libraries in staffing and providing programs and services. The accompanying general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity.

The financial reporting entity of the Libraries System is comprised of itself as the primary government and any component units. Component units of the governmental entity are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the combined financial statements to be misleading or incomplete. Based on the application of the criteria above, there are no component units.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Libraries System's basic financial statements include both government-wide (reporting the Libraries System as a whole) and fund financial statements (reporting the Libraries System's major funds).

Government-Wide Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. For the most part, the effect of interfund activity has been removed from the statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net position includes and recognizes all long-term assets and receivables as well as long-term liabilities and obligations. The Libraries System's net assets are reported in three parts-invested in capital assets; restricted net assets; and unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to library patrons who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues and are reported instead as general revenue.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Fund Financial Statements

The Libraries System reports the following major governmental funds:

The General Fund is the Libraries System's primary operating fund. It accounts for all financial resources of the Libraries System, except those required to be accounted for in another fund.

The Employee Benefits Fund is a special revenue fund used to account for all employee benefits of the Libraries System.

Capital Improvement Fund is a special revenue fund used to account for all capital improvement expenditures to improve the Libraries System.

The State Aid Fund is a special revenue fund used to account for state support and items to support operation of the Libraries System.

The other aggregate non-major funds of the Libraries System account for various grants and other resources.

Budgetary Information

Kansas statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. The Librarian submits to the Executive Committee a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to August 25, the budget is legally enacted.
3. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
4. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles except that encumbrances are shown as expenditures. Budgetary comparisons for the General and Special Revenue Funds are presented as required by the State of Kansas; that is, including encumbrances as expenditures.

Cash and Cash Equivalents

The Libraries System has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments of three months or less when acquired.

Capital Assets

Capital assets are defined by the Libraries System as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at cost. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Furniture and equipment	5 -10 years
Vehicles	5 years

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Compensated Absences

It is the Libraries System's policy to permit employees to accumulate earned, but unused sick and vacation benefits. There is no liability for unpaid accumulated sick leave since the Libraries System does not have a policy to pay any amounts when employees separate from service with the Libraries System. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund - General Fund only for employee terminations as of year-end.

Taxes Receivable

Taxes receivable consist of amounts levied for 2019 as part of the 2019 budget. As the amounts cannot be used until the year for which they are levied, the receivable is offset by a corresponding deferred revenue. This deferred revenue will be recognized in 2019 when the taxes are received.

Fund Balances - Governmental Funds

The Libraries System elected to implement GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in calendar year 2011. In the fund financial statements, governmental funds report the following classifications of fund balance:

- Restricted - includes amounts restricted by external sources (creditors, grantors, contributors, laws of other governments, etc.) or by constitutional provision or enabling legislation.
- Assigned - includes amounts that the Libraries System intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. According to the Libraries System's policy, amounts may be assigned by the Director under the authorization of the Libraries System's Executive Committee.
- Unassigned - includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Libraries System considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Libraries System considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Libraries System's Executive Committee has provided otherwise in its commitment or assignment actions.

Net Position

Net position restricted by grantors are restricted for use in accordance with grant agreements for specified purposes. The Libraries System's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Note 2: Deposits and Investments

K.S.A 9-1401 establishes the depositories which may be used by the Libraries System. The statute requires banks eligible to hold the Libraries System's funds have a main or branch bank in the county in which the Libraries System is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The Libraries System has no other policies that would further limit interest rate risk.

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
 Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2018

Note 2: Deposits and Investments (Continued)

K.S.A. 12-1675 limits the Libraries System's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Libraries System has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the Libraries System may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk - deposits. Custodial credit risk is the risk that in the event of a bank failure, the Libraries System's deposits may not be returned to it. State statutes require the Libraries System's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%.

At December 31, 2018, the Libraries System's carrying amount of deposits was \$521,264 and the bank balance was \$530,182. The bank balance was held by one bank resulting in a concentration of credit risk. To mitigate this risk, the Libraries System maintains a repurchase agreement by which excess idle funds are swept out of the account at the end of the bank business day and invested overnight in low-risk governmental securities.

Note 3: Capital Assets

Capital asset activity for the year ended December 31, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets being depreciated				
Furniture and equipment	\$ 29,643	\$ 8,250	\$ 4,600	\$ 33,293
Vehicles	96,500	-	-	96,500
Total	<u>\$ 126,143</u>	<u>\$ 8,250</u>	<u>\$ 4,600</u>	<u>\$ 129,793</u>
Less: Accumulated depreciation				
Furniture and equipment	\$ 23,537	\$ 3,017	\$ (4,600)	\$ 21,954
Vehicles	90,711	5,344	-	96,055
Total	<u>\$ 114,248</u>	<u>\$ 8,361</u>	<u>\$ (4,600)</u>	<u>\$ 118,009</u>
Governmental Activities Capital Assets - Net	<u>\$ 11,895</u>	<u>\$ (111)</u>	<u>\$ 9,200</u>	<u>\$ 11,784</u>

Note 4: Long-Term Obligation Activity

Changes in long-term obligations for the year ended December 31, 2018 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Compensated absences	<u>\$ 28,337</u>	<u>\$ 23,277</u>	<u>\$ 26,359</u>	<u>\$ 25,255</u>

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 December 31, 2018

Note 5: Commitments and Contingencies - Encumbrances

The Libraries System uses encumbrances to control expenditure commitments for the year and to enhance cash management. Encumbrances represent commitments related to executed contracts not yet performed and purchase orders not yet filled. Commitments for such expenditure of monies are encumbered to reserve a portion of applicable appropriations. Encumbrances still open at year-end are not accounted for as expenditures and liabilities, but rather as restricted or assigned fund balance. At December 31, 2018, the Libraries System's recorded encumbrances in governmental funds were as follows:

General	\$ 239
Other Governmental Funds	94
	<u>\$ 333</u>

Note 6: Shared Costs Agreement

The Libraries System and the Manhattan Public Library (the Library) share common management and also have an agreement in place whereby the Library agrees to provide certain operating costs, such as personnel, occupancy and supplies expense. Additionally, the Library is responsible for the net pension liability of the Libraries System employees that participate in the Kansas Public Employees Retirement System (KPERs), which is a pension plan administered by the State of Kansas.

For 2018, the Libraries System made payments totaling \$629,720 for personnel services and \$28,093 for occupancy and supply expenses under this agreement.

Note 7: Subsequent Events

Management has evaluated subsequent events through June 5, 2019, which is the date the financial statements were available for issuance.

Note 8: Interfund Transfers

The Libraries System made the following operating transfers during 2018:

<u>Fund From</u>	<u>To</u>	<u>Statutory Authority</u>	<u>Amount</u>
General	Capital Improvement	K.S.A. 12-1258	\$ 83,600