

SOUTHEAST ARKANSAS REGIONAL LIBRARY
AUDITED REGULATORY BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2018

SOUTHEAST ARKANSAS REGIONAL LIBRARY

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DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of

Southeast Arkansas Regional Library

I have audited the accompanying financial statements of Southeast Arkansas Regional Library (a quasi-governmental entity organized under A.C.A. § 13-2-903), which are comprised of the balance sheet as of December 31, 2018 and the related statement of revenues, expenditures and changes in fund balances for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the State of Arkansas. Management is also responsible 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 error or fraud.

Auditor's Responsibility

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

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of Southeast Arkansas Regional Library, as of December 31, 2018., and the revenues it received and expenditures it paid for the year then ended, in accordance with the financial reporting provisions of the State of Arkansas as described in Note B.

Basis of Accounting

I draw attention to Note B of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of the financial reporting provisions of the State of Arkansas, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the State of Arkansas. My opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

The Regulatory Basis of Accounting as described by Arkansas Code requires that the fixed asset schedule and budgetary comparison information on pages 9-10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the State of Arkansas, 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express any opinion or provide any assurance.

Restriction on Use

This report is intended solely for the information and use of management, Board Members, others within Southeast Arkansas Regional Library and Arkansas Legislative Audit and is not intended to be and should not be used by anyone other than these specified parties.



Shawn Hickman, CPA

August 16, 2019

SOUTHEAST ARKANSAS REGIONAL LIBRARY

BALANCE SHEET – REGULATORY BASIS

DECEMBER 31, 2018

Assets

Cash	\$ 675,853
Certificate of Deposit	<u>250,000</u>
Total Assets	<u>\$ 925,853</u>

Liabilities

Transfer Funds Liability	<u>\$ 1,985</u>
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Fund Balances

Regional Funds	\$ 783,800
Funds Held at Branches	5,144
Funds Restricted for:	
Poetry Materials	6,884
Building Repairs	<u>128,040</u>
Total Funds	<u>\$ 923,868</u>
Total Liabilities and	
Fund Balances	<u>\$ 925,853</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS AND AUDITOR'S REPORT

SOUTHEAST ARKANSAS REGIONAL LIBRARY
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCES – REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2018

Revenues

County Millage	\$ 751,500
State Aid	185,295
Memorials and Donations	41,535
Fines and Fees	58,244
Miscellaneous	20,938
Interest	<u>4,594</u>
Total Revenues	\$ 1,062,106

Expenditures

Books	\$ 63,715
Periodicals	1,548
Audiovisuals	7,698
Binding	1,189
One Drive	9,000
Processing	3,749
Electronic Usage	17,676
Salaries & Related Expenses	659,418
Utilities	36,938
Insurance	11,692
Supplies	26,125
Travel	1,813
Postage	1,421
Vehicle Expense	2,723
Miscellaneous	50,150
Repairs and Maintenance	4,237
Furniture and Equipment	58,400
Tech Support	23,336
Professional Services	3,964
Professional Dues	1,342
Office Expense	8,304
Telephone	3,582
Lease Expense	1,531
Meeting Room Expense	<u>12,382</u>

Total Expenditures \$ 1,011,933

Excess/(Deficiency) of Revenue over Expenditures \$ 50,173

Fund Balances, Beginning of Year \$ 873,695

Fund Balances, End of Year \$ 923,868

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS AND AUDITOR'S REPORT

SOUTHEAST ARKANSAS REGIONAL LIBRARY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 : SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

A. *Financial Reporting Entity*

The Southeast Arkansas Regional Library is a joint governmental venture that was formed on May 9, 1983, under A.C.A. §13-2-903. Which authorizes any two (2) or more municipalities, any two (2) or more counties, or any one (1) or more municipalities together with any one (1) or more counties to create and become members of a regional library system. The Library was created be contract between Bradley, Desha, Drew, and Lincoln Counties and Chicot County which joined May 1, 1994, with the contract containing the following points, among others, that:

1. The purpose of the agreement was to create and continue a library system for the Southeast Arkansas area that would provide library services to all people within the participating counties, to the fullest extent practical and possible, to establish a cooperative collection of books and related materials; to provide and improve rotation of books throughout a wider area; to eliminate unnecessary duplication of functions, facilities, and assets; and to take advantage of bulk discount and purchase economics.
2. The agreement would be perpetual duration except that any county can withdraw at the close of any fiscal year by giving written notice to all parties, at least one year before the scheduled date of withdrawal.
3. Each county library shall contribute their one mill tax fund for the operation of the Regional Library System. Payments shall be made in irregular installments as required by the expenditures of the Regional Library.
4. Each county shall provide its own library facilities and pay occupancy costs out of funds other than the one mill library tax.
5. The business of the Southeast Arkansas Regional Library shall be conducted by a Regional Board composed of two members form each county.
6. In the event of the termination of the agreement, all books acquired with Regional Funds after March 23, 1994, or during the period of previous contract between the counties shall be dividend among the counties in proportion to the amount of state aid granted to the Regional Library for each county during this period, with the Arkansas State Library to supervise the division of books.
7. Drew County would provide suitable headquarters in Monticello for the Southeast Arkansas Regional Library System in consideration of the advantages of having the said headquarters located there. In consideration of the provision of the headquarters in Monticello, the parties hereto hereby agree that the Regional Budget shall pay utility and janitorial costs.

The financial statements are presented in accordance with the regulatory basis of presentation as prescribed or permitted by Arkansas Code. This law stipulates that the financial statements consist of balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to actual expenditures; notes to financial statements; and a supplemental schedule of capital assets.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual balances, and changes therein, which are segregated for purposes of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

C. *Fixed Assets*

Per the library agreement, each of the counties provide the premises necessary for branches as well as the maintenance and repair costs for the building and lawn. The fixed assets owned by the library are furniture, equipment, and library materials.

As required by the Regulatory Basis of Accounting in the State of Arkansas a schedule of fixed assets has been provided on page 10.

D. *Basis of Accounting*

The financial statements are prepared on the regulatory basis of accounting as prescribed or permitted by Arkansas Code. This regulatory basis differs from accounting principles generally accepted in the United States of America. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the system considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due. As a result of the use of this regulatory basis of accounting, capital assets and long-term debt are not recorded in these financial statements.

E. *Assets, Liabilities, and Fund Balances*

Cash and Cash Equivalents

For the purpose of financial reporting, "cash and cash equivalents" includes all demand accounts and certificates of deposit.

SOUTHEAST ARKANSAS REGIONAL LIBRARY

NOTES TO FINANCIAL STATEMENTS

NOTE 2: DEPOSITS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Library's deposits may not be returned, or the Library will not be able to recover collateral securities in the possession of an outside party. State statutes require and it is Library's policy for deposits to be 100% secured by collateral valued at the lower of market or par, less the amount of Federal Deposit Insurance Corporation insurance. All cash balances held in financial institutions are below FDIC limits and are considered fully insured.

NOTE 3: ACCOUNTS RECEIVABLE

Property taxes are assessed, collected, and remitted to the Library by the constituent's counties and from the Arkansas State Library when the Library submits a claim for funds. As such, the Library recognizes revenue when a claim is made in pursuant to A.C.A. § 13-2-404. As of December 31, 2018, there was no balance outstanding from the county or state.

NOTE 4: ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Plan Description

The Library contributes to the Arkansas Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan through Drew County. APERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employee Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS.

Fund Police

All employees of the Library who work in excess on 80 hours per month automatically become members of the Arkansas Public Employee Retirement System which is administered through Drew County. For the year ending December 31, 2018, the Library paid \$59,536 to Drew County for its portion of employee's retirement benefits.

NOTE 5: SUBSEQUENT EVENTS

There are no subsequent events to report at the time of this report.

SUPPLEMENTARY INFORMATION

SOUTHEAST ARKANSAS REGIONAL LIBRARY
SCHEDULE OF EXPENSES – REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2018

	(UNAUDITED)		FAVORABLE (UNFAVORABLE)
	BUDGET	ACTUAL	VARIANCE
Salaries Professional	\$ 52,000	\$ 52,000	\$ -0-
Salaries Library	392,414	360,919	31,495
Salaries Temporary	82,000	92,847	(10,847)
County Retirement	64,000	59,536	4,464
Social Security	32,962	31,357	1,605
Medicare	7,800	7,334	466
Insurance Health & Life	62,749	54,203	8,546
Workman's Compensation	1,850	-0-	1,850
Unemployment	4,000	1,139	2,861
Professional Services	4,500	3,964	536
Books	52,000	49,443	2,557
Periodicals	3,000	31,548	1,452
Audiovisuals	8,000	7,698	302
E Books	9,000	9,000	-0-
Processing	4,000	3,749	251
Binding	1,300	1,189	111
Electronic Usage	20,000	17,676	2,324
Furniture & Equipment	4,000	2,674	1,326
Insurance	14,400	11,692	11,692
Office Supplies	8,000	7,615	385
Lease Expense	2,800	1,531	1,269
Miscellaneous	3,103	2,909	194
Postage	500	412	88
Technology Support	12,300	10,506	1,794
Telephone	4,000	3,582	418
Travel	2,000	1,813	187
Utilities	42,900	36,938	5,962
Gas	4,200	2,487	1,713
Mileage	900	58	842
Auto Repair	1,000	178	822
Auto Replacement Fund	2,000	2,000	0
Building Maintenance	5,000	4,122	878
Professional Organization	1,500	1,342	158
Technical Services	16,000	12,830	3,170
Capital Fund Budget	87,001	47,749	39,252
NON BUDGETED EXPENSES:			
Branch Miscellaneous	0	47,241	(47,241)
Branch Supplies	0	26,814	(26,814)
Branch Materials	0	14,271	(14,271)
Branch Postage	0	1,009	(1,009)
Branch Furniture & Equipment	<u>0</u>	<u>18,558</u>	<u>(18,558)</u>
	<u>\$ 1,1013,179</u>	<u>\$ 1,011,933</u>	<u>\$ 1,246</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS AND AUDITOR'S REPORT

**SOUTHEAST ARKANSAS REGIONAL LIBRARY
SCHEDULE OF EXPENSES – REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2018**

The following schedule of fixed assets was not audited for existence or valuation. The Library's constituent counties provide a building and maintenance for each of the branches. The Library is responsible for and owns the furniture, equipment, and library materials. The net values of the equipment are at cost. The Library keeps a running inventory of all equipment.

Computers & Equipment	\$ 73,709
Administrator's Office	9,317
Monticello Meeting Room	10,402
Other Equipment	<u>9,993</u>
	<u>\$ 103,421</u>

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Southeast Arkansas Regional Library

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the balance sheet and statements of revenues, expenditures, and changes in fund balances of Southeast Arkansas Regional Library as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Southeast Arkansas Regional Library's basic financial statements and have issued our report thereon dated August 16, 2019.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings to be material weaknesses. (See Findings 2018-01,20189-02,2018-03)

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than material weaknesses, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings to be significant deficiencies. (See Findings 2018-04)

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August 16, 2019

To the Board of Directors of
The Southeast Arkansas Regional Library

I have audited the financial statements of each major fund, and the aggregate remaining fund information of the Southeast Arkansas Regional Library for the year ended December 31, 2018. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. I have communicated such information in my letter to you dated August 16, 2019. Professional standards also require that I communicate to you the following information related to my audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Southeast Arkansas Regional Library are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2018. I noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by the management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Southeast Arkansas Regional Library's financial statements was:

Managements estimate of the fixed assets in a supplemental schedule to the financial statements is based on the replacement value of those fixed assets. I did not perform procedures to verify the accuracy of those replacement values.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of fixed assets in a supplemental schedule to the financial statements is the most sensitive disclosure to the financial statements, due to fixed assets constituting the majority of the Library's assets. As

noted in my opinion letter, I did not perform procedures on the schedule of fixed assets and do not express an opinion on its accuracy. The regulatory basis of accounting does not require fixed assets to be included on the balance sheet.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing my audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

Management Representations

I have requested certain representations from management that are included in the management representation letter dated August 16, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matter, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements, or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Other Audit Findings of Issues

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, I made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to my audit of the financial statements. I compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of the Southeast Arkansas Regional Library and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely



Shawn Hickman