

Joseph T. Simpson Public Library

Year Ended December 31, 2019
with Comparative Totals for 2018



Joseph T. Simpson Public Library

Financial Statements - Modified Cash Basis

Year Ended December 31, 2019 with Comparative Totals for 2018

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INDEPENDENT AUDITORS' REPORT

Board of Trustees

Joseph T. Simpson Public Library

Mechanicsburg, Pennsylvania

We have audited the accompanying financial statements of **Joseph T. Simpson Public Library** (a nonprofit organization), which comprise the statements of assets, liabilities, and net assets - modified cash basis as of December 31, 2019, and the related statements of support and revenue, expenses, and other changes in net assets - modified cash basis, functional expenses - modified cash basis, and cash flows - modified cash basis 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 modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. 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 fraud or error.

Auditors' 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 2019 financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of **Joseph T. Simpson Public Library** as of December 31, 2019, and its support and revenue, expenses, and other changes in net assets and its cash flows for the year then ended, in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Prior Period Summarized Comparative Information

The financial statements as of December 31, 2018, were audited by Greenawalt & Company, P.C., who merged with Trout CPA as of January 1, 2020, and whose report dated May 29, 2019, expressed an unmodified opinion on those modified cash basis financial statements. The summarized comparative information presented herein as of and for the year ended December 31, 2018, derived from those financial statements, has not been subjected to the auditing procedures applied in the audit of the 2019 financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Trout CPA
October 29, 2020
Trout CPA

Joseph T. Simpson Public Library
 STATEMENT of ASSETS, LIABILITIES, and NET ASSETS -
 Modified Cash Basis
 December 31, 2019 with Comparative Totals for 2018

	2019				2018	
	Operating Fund	Property and Equipment Fund	Local Capital Projects Fund	Endowment Fund	Total	Total
ASSETS						
Current Assets						
Cash	\$ 469,941	\$ -0-	\$ 57,155	\$ -0-	\$ 527,096	\$ 510,840
Property and Equipment						
Land	-0-	314,330	-0-	-0-	314,330	314,330
Buildings	-0-	319,963	-0-	-0-	319,963	319,963
Improvements - Land and Building	-0-	2,710,037	-0-	-0-	2,710,037	2,669,987
Furniture and Equipment	-0-	529,590	-0-	-0-	529,590	529,590
Construction in Progress	-0-	8,820	-0-	-0-	8,820	-0-
	-0-	3,882,740	-0-	-0-	3,882,740	3,833,870
Accumulated Depreciation	-0-	(2,337,816)	-0-	-0-	(2,337,816)	(2,201,202)
	-0-	1,544,924	-0-	-0-	1,544,924	1,632,668
Other Assets						
Investments, Noncurrent	373,834	-0-	-0-	-0-	373,834	303,612
Materials Collection	-0-	2,145,942	-0-	-0-	2,145,942	2,128,909
Perpetual Interest in Assets Held by Others	-0-	-0-	-0-	343,022	343,022	298,559
Investments - Endowment Funds	-0-	-0-	-0-	33,267	33,267	17,251
	373,834	2,145,942	-0-	376,289	2,896,065	2,748,331
TOTAL ASSETS	\$ 843,775	\$ 3,690,866	\$ 57,155	\$ 376,289	\$ 4,968,085	\$ 4,891,839

See notes to financial statements.

Joseph T. Simpson Public Library
 STATEMENT of ASSETS, LIABILITIES, and NET ASSETS -
 Modified Cash Basis
 (Continued)
 December 31, 2019 with Comparative Totals for 2018

	2019				2018	
	Operating Fund	Property and Equipment Fund	Local Capital Projects Fund	Endowment Fund	Total	Total
LIABILITIES and NET ASSETS						
LIABILITIES	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
NET ASSETS						
Without Donor Restrictions:						
Board Designated	-0-	3,690,866	57,155	33,267	3,781,288	3,886,807
Undesignated	<u>843,775</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>843,775</u>	<u>706,473</u>
Total Without Donor Restrictions	843,775	3,690,866	57,155	33,267	4,625,063	4,593,280
With Donor Restrictions	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>343,022</u>	<u>343,022</u>	<u>298,559</u>
Total Net Assets	<u>843,775</u>	<u>3,690,866</u>	<u>57,155</u>	<u>376,289</u>	<u>4,968,085</u>	<u>4,891,839</u>
TOTAL LIABILITIES and NET ASSETS	<u><u>\$ 843,775</u></u>	<u><u>\$ 3,690,866</u></u>	<u><u>\$ 57,155</u></u>	<u><u>\$ 376,289</u></u>	<u><u>\$ 4,968,085</u></u>	<u><u>\$ 4,891,839</u></u>

See notes to financial statements.

Joseph T. Simpson Public Library

STATEMENT of SUPPORT and REVENUE, EXPENSES, and OTHER CHANGES in NET ASSETS -
Modified Cash Basis

Year Ended December 31, 2019 with Comparative Totals for 2018

	2019				2018	
	Operating Fund	Property and Equipment Fund	Local Capital Projects Fund	Endowment Fund	Total	Total
OPERATING ACTIVITIES						
Unrestricted Net Assets						
Support and Revenues						
Support:						
Government Aid	\$ 712,136	\$ -0-	\$ -0-	\$ -0-	\$ 712,136	\$ 688,884
Contributions and Grants	150,980	-0-	-0-	-0-	150,980	151,687
Fundraisers	134,115	-0-	-0-	-0-	134,115	108,683
Donated Materials and Services	4,210	-0-	-0-	-0-	4,210	5,751
Total Unrestricted Support	1,001,441	-0-	-0-	-0-	1,001,441	955,005
Revenues:						
Fines and Assessments	37,139	-0-	-0-	-0-	37,139	39,027
Use Charges and Rentals	21,080	-0-	-0-	-0-	21,080	18,907
Investment Income	57,852	-0-	436	-0-	58,288	(14,812)
Total Unrestricted Revenues	116,071	-0-	436	-0-	116,507	43,122
Net Assets Released from Restrictions						
Satisfaction of Spending Restriction	-0-	-0-	-0-	-0-	-0-	-0-
Total Unrestricted Support, Revenues and Reclassifications	\$ 1,117,512	\$ -0-	\$ 436	\$ -0-	\$ 1,117,948	\$ 998,127

See notes to financial statements.

Joseph T. Simpson Public Library

STATEMENT of SUPPORT and REVENUE, EXPENSES, and OTHER CHANGES in NET ASSETS -

Modified Cash Basis

(Continued)

Year Ended December 31, 2019 with Comparative Totals for 2018

	2019				2018	
	Operating Fund	Property and Equipment Fund	Local Capital Projects Fund	Endowment Fund	Total	Total
OPERATING ACTIVITIES (Continued)						
Expenses:						
Library Program Services	\$ 788,749	\$ -0-	\$ 6,084	\$ -0-	\$ 794,833	\$ 755,441
General and Administrative	111,605	-0-	796	-0-	112,401	129,856
Fundraising	81,496	-0-	485	-0-	81,981	81,828
Total Unrestricted Expenses	981,850	-0-	7,365	-0-	989,215	967,125
Increase (Decrease) in Unrestricted Net Assets	135,662	-0-	(6,929)	-0-	128,733	31,002
PERMANENTLY RESTRICTED NET ASSETS						
Net Increase (Decrease) in Endowment Funds	-0-	-0-	-0-	50,824	50,824	(20,750)
Changes in Net Assets from Operations	135,662	-0-	(6,929)	50,824	179,557	10,251
NET ASSETS - Beginning	706,473	3,761,577	105,979	317,810	4,891,839	4,922,777
Other Changes in Unrestricted Net Assets						
Depreciation	136,614	(136,614)	-0-	-0-	-0-	-0-
Building Improvements and Equipment Purchases Net of Basis - Property Disposed	(6,975)	48,870	(41,895)	-0-	-0-	-0-
Transfers to Endowments	(7,655)	-0-	-0-	7,655	-0-	-0-
Library Collection Disposals	-0-	(103,311)	-0-	-0-	(103,311)	(41,189)
Library Collection Purchases	(120,344)	120,344	-0-	-0-	-0-	-0-
	1,640	(70,711)	(41,895)	7,655	(103,311)	(41,189)
NET ASSETS - Ending	\$ 843,775	\$ 3,690,866	\$ 57,155	\$ 376,289	\$ 4,968,085	\$ 4,891,839

See notes to financial statements.

Joseph T. Simpson Public Library

STATEMENT of FUNCTIONAL EXPENSES -

Modified Cash Basis

Year Ended December 31, 2019 with Comparative Totals for 2018

	2019			2018	
	Library Program Services	General and Administrative	Fundraising	Total	Total
OPERATING FUND					
Salaries and Wages	\$ 438,657	\$ 57,440	\$ 34,944	\$ 531,041	\$ 517,449
Payroll Taxes	38,441	5,034	3,062	46,537	44,863
Employee Benefits	35,752	4,682	2,848	43,282	42,683
Library Supplies and Programming	30,150	-0-	-0-	30,150	25,693
Postage and Freight	1,733	227	138	2,098	3,835
Printing and Office Expenses	11,376	1,490	906	13,772	18,227
Utilities and Telephone	25,390	3,324	2,023	30,737	35,221
Maintenance - Building and Equipment	50,421	6,602	4,017	61,040	46,973
Insurance	10,533	1,379	839	12,751	17,660
Travel and Conferences	3,730	-0-	-0-	3,730	5,478
Professional Fees	-0-	13,440	-0-	13,440	10,815
Merchant and Collection Fees	5,328	698	424	6,450	4,395
Payroll Processing	3,492	458	278	4,228	5,275
Advertising and Promotion	4,953	517	315	5,785	13,750
Computer Expenses	4,442	581	354	5,377	2,269
Dues and Memberships	2,998	393	239	3,630	4,972
Miscellaneous	4,296	563	342	5,201	1,659
Grant Expenses	-0-	-0-	-0-	-0-	1,347
Fundraising	-0-	-0-	21,777	21,777	21,280
Depreciation	112,847	14,777	8,990	136,614	129,930
Donated Materials and Supplies	4,210	-0-	-0-	4,210	5,751
	<u>788,749</u>	<u>111,605</u>	<u>81,496</u>	<u>981,850</u>	<u>959,525</u>
LOCAL CAPITAL PROJECTS FUND					
Maintenance - Building and Equipment	6,084	796	485	7,365	7,600
TOTAL FUNCTIONAL EXPENSES	<u>\$ 794,833</u>	<u>\$ 112,401</u>	<u>\$ 81,981</u>	<u>\$ 989,215</u>	<u>\$ 967,125</u>

See notes to financial statements.

Joseph T. Simpson Public Library

STATEMENT of CASH FLOWS -

Modified Cash Basis

Year Ended December 31, 2019 with Comparative Totals for 2018

	2019				2018
	Operating Fund	Local Capital Projects Fund	Endowment Fund	Total	Total
CASH FLOWS from OPERATING ACTIVITIES					
Changes in Net Assets from Operations	\$ 135,662	\$ (6,929)	\$ 50,824	\$ 179,557	\$ 10,251
Adjustments to Reconcile Changes in Net Assets from Operations to Net Cash Provided (Used) by Operating Activities					
Depreciation	136,614	-0-	-0-	136,614	129,930
Realized Gain on Sale of Investments	(5,913)	-0-	-0-	(5,913)	(13,920)
Unrealized (Gain) Loss on Investments	(59,931)	-0-	-0-	(59,931)	46,812
Net (Increase) Decrease in Endowment Funds	-0-	-0-	(50,824)	(50,824)	20,749
Net Cash Provided (Used) by Operating Activities	206,432	(6,929)	-0-	199,503	193,822
CASH FLOWS from INVESTING ACTIVITIES					
Payment for Purchase of Materials Collection	(120,344)	-0-	-0-	(120,344)	(119,611)
Payment for Purchase of Property and Equipment	(6,975)	(41,894)	-0-	(48,869)	(85,571)
Payments for New Endowment and Investments	(7,655)	-0-	-0-	(7,655)	(13,798)
Payment for Purchase of Investments	(47,209)	-0-	-0-	(47,209)	(90,612)
Proceeds from Sale of Investments	40,830	-0-	-0-	40,830	76,763
Net Cash Used by Investing Activities	(141,353)	(41,894)	-0-	(183,247)	(232,829)
INCREASE (DECREASE) in CASH	65,079	(48,823)	-0-	16,256	(39,007)
CASH					
Beginning	404,862	105,978	-0-	510,840	549,847
Ending	\$ 469,941	\$ 57,155	\$ -0-	\$ 527,096	\$ 510,840

See notes to financial statements.

Joseph T. Simpson Public Library

NOTES to FINANCIAL STATEMENTS

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES

Organization

The **Joseph T. Simpson Public Library** (the Library), incorporated in August 1960, and operates as a nonprofit local public Library in Pennsylvania. The Library provides educational and entertaining materials and services to five municipalities as designated by the PA Commonwealth Libraries and to all residents of Cumberland County.

Basis of Accounting

The Library presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis, revenue is recognized when received rather than when earned, and expenses are recognized when paid rather than when the obligation is incurred.

In addition, the modified cash basis differs from US GAAP in that the Library has not recognized pledges receivable from donors, accounts payable to vendors, and their related effects on the changes in net assets. The primary modifications to the cash basis of accounting are the capitalizing of the Library's property and equipment and recording of depreciation thereon, the recording of the cost of historical buildings acquired as assets and recording of investments at fair value, and the recording of in-kind contributions. Therefore, the accompanying financial statements are not intended to present the financial position and results of operations in conformity with US GAAP.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Codification. Accordingly, the Library presents its financial position and activities according to two classes of net assets:

Net Assets without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Library. These net assets may be used at the discretion of the Library's management and the Board of Trustees.

Net Assets with Donor Restrictions

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by the actions of the Library. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

The Library has elected to continue its use of fund reporting for the benefit of readers of these financial statements, and has accordingly presented the required classes of net assets applicable to the Library under the following fund groups:

Operating Fund

Unrestricted net assets represent resources over which the Board of Trustees has discretionary control and are used to carry out operations of the Library in accordance with its bylaws.

Joseph T. Simpson Public Library

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment Fund

Unrestricted net assets of the property and equipment fund represent costs capitalized as acquisitions of property and equipment net of accumulated depreciation, the related debt to acquire those assets, if any, and the Library's materials collection.

Local Capital Projects Fund

Unrestricted net assets represent funds designated by the Board of Trustees to be used for capital projects, including costs of maintenance and improvements to the library building and costs of any future Capital Campaign.

Endowment Fund

Permanently restricted net assets contributed to the Library. The income only to be used for the purposes specified, with the principal to be retained as a permanent endowment fund.

Use of Estimates

The preparation of financial statements on the modified cash basis of accounting requires the use of estimates based on management's knowledge and experience. Due to their prospective nature, actual results could differ from those estimates. The Library estimates relate primarily to depreciation which is based on estimated useful lives, fair value measurement of investments, replacement cost of materials collection, and the allocation of functional expenses.

Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with the modified cash basis of accounting. Accordingly, such information should be read in conjunction with the Library's financial statements for the year ended December 31, 2018, from which the summarized information was derived.

Income Taxes

The Library is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except for net income derived from unrelated business activities, if any, and is not a private foundation as determined by the IRS. The Library did not have any unrelated business income for the year ended December 31, 2019.

Uncertainty in Income Taxes

The Library follows FASB ASC 740, *Income Taxes*, which provides guidance on accounting for uncertainty in income taxes recognized in the Library's financial statements. Management has determined that the Library does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures. Since tax matters are subject to some degree of uncertainty, there can be no assurance that the Library's tax returns will not be challenged by the taxing authorities and that the Library will not be subject to additional tax, penalties, and interest as a result of such challenge.

Management is not aware of any uncertain tax positions taken by the Library.

Joseph T. Simpson Public Library

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash

For purposes of presenting cash flows, the Library includes as cash, cash on deposit with financial institutions in checking accounts, money market accounts, and savings accounts since the Library owns no cash equivalents.

Investments

Investments are carried at fair value in the statement of assets, liabilities, and net assets - modified cash basis in accordance with FASB ASC Topic 958, *Not-For-Profit Entities*. Gains and losses on investments are required to be reported in the statement of support and revenue, expenses, and other changes in net assets - modified cash basis as increases or decreases in net assets without donor restrictions unless restrictions are stipulated by the donor or by law. Contributed investments are recorded as a contribution at the fair value on the date received.

Fair Value Measurement

The Library adopted FASB ASC Topic 820, *Fair Value Measurements and Disclosure*. This standard defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

Property and Equipment

Property and equipment are recorded at cost. Donations of property and equipment are recorded as contributions at fair value at the date of gift. Assets costing \$500 or greater and having a useful life greater than a year generally are capitalized and are depreciated on the straight-line method based on the following estimated useful lives:

Building and Improvements	10 - 30 Years
Furniture and Equipment	5 - 10 Years

Major improvements to property and equipment are capitalized and depreciated over the estimated useful life of the asset. Maintenance and normal repairs are expensed as incurred. When assets are sold, the cost and related accumulated depreciation amounts are removed from the books, with any gain or loss being reflected in the statement of support and revenue, expenses, and other changes in net assets - modified cash basis. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Materials Collection

The Library capitalizes the value of its inexhaustible materials collection, including books, periodicals, and audio-visuals. The collection is valued at estimated average replacement prices. Management feels the Library has obtained adequate insurance coverage to protect the collection from loss.

Investments - Noncurrent and Endowment Funds

Restricted endowment funds are invested at a local foundation and brokerage firm as three separate endowment funds to benefit the Library. The funds are reported in these statements at market value as provided by the Library and brokerage firm. Noncurrent investments without restrictions are invested at a local financial institution brokerage and are reported in these statements at market value.

Joseph T. Simpson Public Library

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions and Donated Materials and Services

Support that is restricted by the donor is reported as an increase in net assets - without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor - restricted support is reported as an increase in net assets - with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets - with donor restrictions are reclassified to net assets - without donor restrictions and reported in the statement of support and revenue, expenses, and other changes in net assets - modified cash basis as net assets released from restrictions.

The Library receives substantial services donated by volunteers interested in the programs and services provided by the Library to the community. Because of the difficulty in assigning values for these services, those items are not reflected in these financial statements. However, when the value of substantial or specialized donated services or specific donated materials is ascertainable, they are reflected in the financial statements as support received and expenses paid. Specific materials donated for use in providing library programs are recorded as support and expenses of the Operating Fund. Specialized services donated in renovations to the building, if any, are included as support in the Local Capital Projects Fund with expense capitalized as building improvements under the Property and Equipment Fund.

Functional Expenses

The costs of providing Library programs and supporting services has been summarized on a functional basis in the statement of support and revenue, expenses, and other changes in net assets - modified cash basis. Certain expenses are charged directly to program or supporting services based on specific identification. Indirect expenses have been allocated based on salary expenses or other reasonable allocation methods.

The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries and Wages	Time and Effort
Payroll Taxes	Time and Effort
Employee Benefits	Time and Effort
Depreciation	Time and Effort
Utilities and Telephone	Time and Effort
Maintenance - Building and Equipment	Time and Effort
Insurance	Time and Effort
Advertising and Promotion	Time and Effort
Others	Time and Effort

Joseph T. Simpson Public Library

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Standards Adopted in 2019

During the current year, the Library adopted ASU 2018-08, Topic 958, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The Library has analyzed the provisions of FASB's ASC Topic 958 and has concluded that no changes to the Library's preexisting policies of revenue recognition are necessary to conform with the new standard. Therefore, a restatement of net assets is not necessary to apply the standard retrospectively.

Accounting Standards Not Yet Adopted

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This standard will be effective for the Library's calendar year ending December 31, 2020. The Library is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the income statement. This standard will be effective for the Library's calendar year ending December 31, 2022. The Library is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

NOTE 2 - CONCENTRATION of CREDIT RISK

Financial instruments that potentially subject the Library to concentration risk consist principally of cash balances and investments. The Library maintains its cash and investment balances with various financial institutions. Balances with these institutions may at times exceed FDIC and SIPC insurance limitations. Management believes that it is not exposed to any significant credit risk on its cash accounts.

NOTE 3 - INVESTMENTS - RESERVE FUND

A Reserve Fund investment account was established in 2017 to ensure the long-term financial stability of the Library. Management accounts for these investments in an unrestricted, undesignated fund. All interest, dividends, and realized gains are reinvested in the fund. Use of reserve fund assets requires the direct approval of the Board of Trustees. All investments within this reserve fund account are considered noncurrent as there are no investments with fixed maturity dates and the intent of the Library is to hold these investments beyond the next twelve-month period.

Joseph T. Simpson Public Library

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 3 - INVESTMENTS - RESERVE FUND (Continued)

At December 31, 2019 and 2018, investments are presented in the financial statements in the aggregate at fair market value at:

	2019	2019	2018	2018
	Cost	Fair Market Value	Cost	Fair Market Value
Money Market Fund	22,607	22,607	12,832	12,832
Fixed Income Mutual Funds	140,213	142,102	145,349	138,760
Equity Securities	182,505	194,125	-0-	-0-
Certificates of Deposit	<u>15,000</u>	<u>15,000</u>	<u>176,228</u>	<u>152,020</u>
	360,325	373,834	334,409	303,612
Noncurrent	360,325	373,834	334,409	303,612

At December 31, 2018, \$2,000 of endowment contributions were on hand in this account that had not been transferred into the new general endowment fund.

NOTE 4 - INVESTMENTS - ENDOWMENT FUNDS

Endowment Fund investments at December 31, 2019 and 2018, consists of:

	2019	2018
General Endowment -		
Board Designated Quasi Endowment - Local Brokerage	33,267	17,251

Interpretation of Relevant Law

The Commonwealth of Pennsylvania has not enacted a version of the UPMIFA, or a version of the Uniform Management of Institutional Funds Act (UPMIFA). Governing law resides in 15 Pa. C.S. §5548 "Investment of Trust Funds". The Library has interpreted relevant law as requiring the donor-restricted endowment fund, absent explicit donor stipulations to the contrary, to be managed with the long-term objective of at least maintaining the real value (after inflation) of the funds. The Library classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Pennsylvania law permits the Board of Directors to make an election to annually appropriate for expenditure a selected percentage between 2% and 7% of the fair value of assets related to donor-restricted endowment funds averaged over a period of three preceding years, provided the Board has determined that such percentage is consistent with the long-term preservation of the real value of such assets.

Joseph T. Simpson Public Library

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 4 - INVESTMENTS - ENDOWMENT FUNDS (Continued)

Return Objectives and Risk Parameters

The Library has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to maintain expenditures supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Library must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested based on the standards of a "Prudent Man" that is intent to produce results that exceed the standard indices for each investment classification on an annual basis.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Library relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Library's investment fund asset mix is invested among equities, fixed income, and cash equivalents. The Board has determined an asset mix strategy to improve the probability of achieving enhanced real (inflation protected) rates of return.

Spending Policy

The spending policy of the Library is set to provide, as closely as possible, equitable benefits from the endowment for current and future programs. A spending policy has been adopted to fairly meet programmatic requirements of the endowment. The Library appropriates funds determined on a total return basis, e.g. interest, dividends, and appreciation of the principal. Distributions from principal can be made in whole or in part, by a vote of at least 75% of the Board of Directors of the Library and by supplying the Trustee 90 day's written notice of its intention. The Board must then reaffirm its intention no less than one month and no more than 45 days from the date of the original notice.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift amount maintained as net assets with donor restrictions. There were no such deficiencies as of December 31, 2019 and 2018. Pennsylvania law allows for aggregation of endowments, therefore endowments with deficiencies are netted with gains and accounted for within net assets with donor restrictions.

Endowment funds are invested at a local financial institution brokerage (OFA) for the purpose of establishing the Joseph T. Simpson Public Library General Endowment Fund. Additions may be made to the Fund at any time. The funds are invested in 75% equity funds and 25% fixed income at the institution as selected by the Library's Board of Trustees. The Endowment Fund is shown at market value. The change in value of the Fund is recorded under the Endowment Fund as changes in restricted net assets. Distributions are recorded as unrestricted contributions in the Operating Fund if the distribution is used in the same year as received to subsidize general operations of the Library. For 2019 and 2018, the TFEC annual distribution of \$10,655 and \$9,501, respectively, was withdrawn, transferred and invested in the Endowment at OFA.

Joseph T. Simpson Public Library

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 4 - INVESTMENTS - ENDOWMENT FUNDS (Continued)

Changes in board designated endowment net assets for the years ended December 31, 2019 and 2018:

	2019	2018
Endowment Net Assets, Beginning of Year	17,251	-0-
Contributions/Reinvested Grant Funds	6,000	9,501
Investment Return:		
Interest and Dividend Income	264	-0-
Net Realized and Unrealized Gains	9,792	-0-
Investment-Related Fees	<u>(40)</u>	<u>-0-</u>
Total Investment Return	10,016	-0-
Board Designated Transfers	<u>-0-</u>	<u>7,750</u>
Endowment Net Assets, End of Year	33,267	17,251

NOTE 5 - PERPETUAL INTEREST in ASSETS HELD by OTHERS

Perpetual interest in assets held by others at December 31, 2019 and 2018 consists of:

	2019	2018
Book Fund Endowment -		
Donor Restricted - Local Foundation	22,996	19,371
General Endowment -		
Board Restricted Quasi Endowment - Local Foundation	<u>320,026</u>	<u>279,188</u>
	343,022	298,559

Book Fund - Donor Restricted

These funds are invested in trust at a local community foundation for the purpose of establishing the Joseph T. Simpson Public Library Book Fund as stipulated in the original donor's bequest. Additions may be made to the Fund at any time. The funds are invested in 70% equity funds and 30% fixed income at the foundation as selected by the Library's Board of Trustees. The Fund is shown at market value. The change in value of the Fund is recorded under the Library's Endowment Fund as changes in restricted net assets. Annual distributions, as calculated by the foundation, are recorded as unrestricted contributions in the Operating Fund if the distribution is used in the same year as received to purchase collection materials. For 2019 and 2018, the Library's Board of Trustees elected to have the annual distribution reinvested in the fund principal.

Joseph T. Simpson Public Library

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 5 - PERPETUAL INTEREST in ASSETS HELD by OTHERS (Continued)

Book Fund - Donor Restricted (Continued)

Changes in Book Fund-donor-restricted net assets for the years ended December 31, 2019 and 2018:

	2019	2018
Net Assets, Beginning of Year	19,371	20,735
Contributions/Reinvested Grant Funds	825	746
Investment Return:		
Interest and Dividend Income	520	515
Net Realized and Unrealized Gains (Losses)	3,541	(1,455)
Investment-Related Fees	(436)	(424)
Appropriation of Fund Assets for Expenditure	<u>(825)</u>	<u>(746)</u>
Net Assets, End of Year	22,996	19,371

General TFEC Fund - Board Restricted

Funds are invested in trust at a local community foundation (TFEC) for the purpose of establishing the "Joseph T. Simpson Public Library General Endowment Fund". Additions may be made to the Fund at any time. The funds are invested in 70% equity funds and 30% fixed income at the foundation as selected by the Library's Board of Trustees. The Fund is shown at market value. The change in value of the Fund is recorded under the Library's Endowment Fund as changes in restricted net assets. Annual distributions, as calculated by the foundation, are recorded as unrestricted contributions in the Operating Fund if the distribution is used in the same year as received to subsidize general operations of the Library. For 2019 and 2018, the TFEC annual distribution of \$10,655 and \$9,501, respectively, was withdrawn, transferred and invested in the new Endowment at OFA reported as investments - endowment fund in Note 4.

Changes in general fund board restricted net assets for the years ended December 31, 2019 and 2018:

	2019	2018
Net Assets, Beginning of Year	279,188	304,026
Contributions/Reinvested Grant Funds	-0-	-0-
Investment Return:		
Interest and Dividend Income	7,364	7,509
Net Realized and Unrealized Gains (Losses)	50,342	(20,691)
Investment-Related Fees	<u>(6,213)</u>	<u>(6,203)</u>
Total Investment Return	51,493	(19,385)
Board Restricted Transfers	-0-	4,048
Appropriation of Fund Assets for Expenditure	<u>(10,655)</u>	<u>(9,501)</u>
Net Assets, End of Year	320,026	279,188

Joseph T. Simpson Public Library

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 6 - NET ASSETS with DONOR RESTRICTIONS

Permanently restricted net assets at December 31, 2019, consists of two separate endowment funds as described below.

The first endowment was created in 2000 at TFEC from donor bequeathed restricted funds to the Library and restricted to establish an endowment fund for the purpose of purchasing new books for the Library's collection. The principal amount donated, along with any future restricted additions to the fund, is to be retained in perpetuity, with only the income distributed being restricted for purchasing of new books. Income received from these funds is released from restriction by the purchase of books included in the Library's collection, however no income was received in 2019 and 2018, as the Library Board approved reinvesting the annual "income grant" back into the endowment fund.

The second endowment was created in 2012 at TFEC. In 2008, a donor bequeathed restricted funds to the Library in the amount of \$100,000 and were deposited into the Library's Local Capital Projects Fund. Additional funds from restricted or unrestricted funds bequeathed or contributed to the Library and approved by the Library's Board of Trustees may be added to this restricted agency endowment fund at the same local foundation. The net income of the fund is to be distributed to the Library for general operating expenses after deducting expenses of investing and administering it. The principal amounts donated including current and future additions to the fund, is to be retained in perpetuity, with only the income distributed able to be used to support the Library's general operations and is released from restriction in the same year the distribution is received by expending on Library operations. The annual 2019 income grant received by the Library, as approved by the Library's Board of Trustees, was reinvested into the Library's general endowment fund which was opened in December 2018 at a local financial institution brokerage (OFA) for any new endowment contributions received going forward.

NOTE 7 - DESIGNATED FUNDS

The Board of Trustees designated in prior years certain funds invested in money markets as Local Capital Projects Fund. Local Capital Projects Funds are to be used for future payment of capital improvements to the building.

NOTE 8 - FAIR VALUE MEASUREMENTS

Fair value accounting standards provide the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets or liabilities and have the highest priority; Level 2 inputs consist of observable inputs other than quoted prices for identical assets; and Level 3 inputs have the lowest priority to unobservable inputs.

The Library uses the following valuation techniques to measure fair value of assets on a recurring basis. There have been no changes in the methodologies used at December 31, 2019.

Money Market Fund - The carrying amount approximates fair value because of the short-term nature of these investments.

Joseph T. Simpson Public Library

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 8 - FAIR VALUE MEASUREMENTS (Continued)

Certificates of Deposit - Value is based on principal balance.

Fixed Income Mutual Funds - Fair value is based on the closing price reported in the active market in which the fund is traded. If there were no sales reported on the last business day of the year, the fund is valued based on a comparable security of like quality and maturity that was traded on December 31, 2018.

Equity Securities - Fair value of equity securities is based on quoted market prices for the identical or similar securities, reported on the active market on which the securities are traded.

Perpetual Interest in Assets Held by Others - Valued at the present value of estimated future cash flows from the underlying assets.

Endowment Funds - Fair value of the endowments are based on a fair value of the endowment funds as provided by the community foundation at which it is held. The present value measures are utilized as the underlying assets of the endowment funds are not in control of the Library.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Library believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Library's assets at fair value on a recurring basis as of December 31, 2019.

	Total	Level 1	Level 2	Level 3
Money Market Fund	22,607	22,607	-0-	-0-
Fixed Income Mutual Funds	142,102	142,102	-0-	-0-
Equity Securities	194,125	194,125	-0-	-0-
Certificates of Deposit	15,000	15,000	-0-	-0-
Perpetual Interest in Assets				
Held by Others	343,022	-0-	-0-	343,022
Endowment Funds	<u>33,267</u>	<u>33,267</u>	<u>-0-</u>	<u>-0-</u>
	750,123	407,101	-0-	343,022

Joseph T. Simpson Public Library

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 8 - FAIR VALUE MEASUREMENTS (Continued)

The following table sets forth by level, within the fair value hierarchy, the Library's assets at fair value on a recurring basis as of December 31, 2018.

	Total	Level 1	Level 2	Level 3
Money Market Fund	12,832	12,832	-0-	-0-
Fixed Income Mutual Funds	138,760	138,760	-0-	-0-
Equity Securities	152,020	152,020	-0-	-0-
Perpetual Interest in Assets				
Held by Others	298,559	-0-	-0-	298,559
Endowment Funds	<u>17,251</u>	<u>17,251</u>	-0-	<u>-0-</u>
	619,422	320,863	-0-	298,559

The activity recognized during the year ended December 31, 2019, for Level 3 financial instruments is as follows:

Perpetual Interest in Assets Held by Others

Balance, January 1, 2019	298,559
Investment Income - Net	7,904
Unrealized Gain	53,863
Administrative Fees	(6,649)
Distributions	<u>(10,655)</u>
Perpetual Interest in Assets Held by Others at December 31, 2019	343,022

The activity recognized during the year ended December 31, 2018, for Level 3 financial instruments is as follows:

Perpetual Interest in Assets Held by Others

Balance, January 1, 2018	324,761
Additions - Transfers In	4,048
Investment Income - Net	18,616
Unrealized (Loss)	(32,738)
Administrative Fees	(6,627)
Distributions	<u>(9,501)</u>
Balance, Perpetual Interest in Assets Held by Others at December 31, 2018	298,559
 2018 Endowment Contributions not Transferred in Until 2019	 <u>2,000</u>
 Perpetual Interest in Assets Held by Others at December 31, 2018	 300,559

Gains and losses (realized and unrealized) included in changes in value for the period above are reported in net realized and unrealized gains (losses) of investments in the statement of support and revenue, expenses, and other changes in net assets - modified cash basis.

Joseph T. Simpson Public Library

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 8 - FAIR VALUE MEASUREMENTS (Continued)

Changes in Fair Value Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

We evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets. For the year ended December 31, 2019, there were no significant transfers in or out of levels 1, 2, or 3.

NOTE 9 - PROPERTY and EQUIPMENT and ACCUMULATED DEPRECIATION

The Library's property and equipment and accumulated depreciation at December 31, 2019, consisted of the following:

	Cost	Accumulated Depreciation	Net Book Value
Land	314,330	-0-	314,330
Buildings	319,963	246,193	73,770
Improvements - Land and Buildings	2,710,037	1,650,280	1,059,757
Furniture and Equipment	529,590	441,343	88,247
Construction in Progress	<u>8,820</u>	<u>-0-</u>	<u>8,820</u>
	3,882,740	2,337,816	1,544,924

The Library's property and equipment and accumulated depreciation at December 31, 2018, consisted of the following:

	Cost	Accumulated Depreciation	Net Book Value
Land	314,330	-0-	314,330
Buildings	319,963	235,528	84,435
Improvements - Land and Buildings	2,669,987	1,553,538	1,116,449
Furniture and Equipment	<u>529,590</u>	<u>412,136</u>	<u>117,454</u>
	3,833,870	2,201,202	1,632,668

Joseph T. Simpson Public Library

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 10 - MATERIALS COLLECTION

The Library has elected to capitalize its collection of Library materials, including all books, reference materials, periodicals, audio-visuals, and other collection materials. Each of the collection items is catalogued and protected and activities verifying their existence and assessing their condition are performed periodically. All materials are being treated as an inexhaustible collection with no depreciation or amortization because the useful lives are not readily determinable. The collection value for older materials has been recorded using estimated replacement value as established for insurance purposes using industry published average prices. Recent acquisitions have been capitalized using actual purchase prices which approximate market value at December 31, 2019. Collection disposals for 2019 were recorded at estimated market value and any resulting loss on disposition is recorded as other changes in unrestricted net assets. Any proceeds from dispositions are used to purchase new collection materials.

NOTE 11 - CONCENTRATIONS

Joseph T. Simpson Public Library received approximately 64% and 69% of their total operating support and revenue from the Commonwealth of Pennsylvania and Cumberland County for the years ended December 31, 2019 and 2018, respectively. The County aid is allocated to local public libraries primarily from a county-wide Library tax assessment.

NOTE 12 - CONTINUING OPERATIONS

The continuation of an entity's operations is usually assumed in financial accounting in the absence of evidence to the contrary. However, an operation which depends primarily on support from agencies of the government is always subject to legislative action which could significantly affect the amount of support it receives.

NOTE 13 - AVAILABILITY and LIQUIDITY

The following represents the Library's financial assets available for expenses within one year of the statement of support and revenue, expenses, and other changes in net assets - modified cash basis at December 31, 2019 and 2018:

	2019	2018
Cash	527,096	510,840
Investments - Noncurrent	373,834	303,612
Investments - Endowment Funds	33,267	17,251
Perpetual Interest in Assets Held by Others	<u>343,022</u>	<u>298,559</u>
Total Financial Assets	1,277,219	1,130,262

Joseph T. Simpson Public Library

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 13 - AVAILABILITY and LIQUIDITY (Continued)

	2019	2018
Less Amounts not Available to be Used Within One Year:		
Net Assets with Donor Restrictions	(56,263)	(36,622)
Board Designated Local Capital Projects Fund	(57,155)	(105,979)
Investments, noncurrent	<u>(373,834)</u>	<u>(301,612)</u>
	<u>(487,252)</u>	<u>(444,213)</u>
Financial Assets Available to Meet General Expenses		
 Within One Year	789,967	686,049

In accordance with the Library Policy, the Library maintains an Operational Reserve Fund consisting of cash or cash equivalents outside of the Library's investment funds targeted at three to six months of average operating costs. Additionally, the Library maintains a Local Capital Project Reserve Fund designated by the Board for any major capital needs relating to building improvements, upkeep, and maintenance.

NOTE 14 - SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the coronavirus (COVID-19) a pandemic. On March 19, 2020, Governor Tom Wolf ordered the closure of non-life sustaining businesses in Pennsylvania. The Library is considered non life-sustaining and halted operations, but re-opened June 1, 2020, following strict guidelines.

The extent of the impact of COVID-19 on the Library's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the Library's members, and fundraising events all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Library's financial condition or results of operations is uncertain.

In May 2020, the Library applied for and was granted a \$107,900 loan through the Small Business Administration's Paycheck Protection Program. The Library may qualify for forgiveness of certain principal amounts under the program. The balance of the loan that is not forgiven is due in fixed monthly payments beginning November 2020, with a final payment of unpaid principal and interest due April 2022. The loan is unsecured and bears interest at 1.00%.

Subsequent events have been evaluated through October 29, 2020, which represents the date the financial statements were available to be issued.