

JOSEPH T. SIMPSON PUBLIC LIBRARY

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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Greenawalt & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR’S 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 statement of assets, liabilities and net assets - modified cash basis as of December 31, 2018, 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 as described in the notes to financial statements; 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.

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 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 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.

Board of Trustees
Joseph T. Simpson Public Library

Opinion

In our opinion, the 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, 2018 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 the notes to the financial statements.

Basis of Accounting

We draw attention to the *Summary of Significant Accounting Policies* note 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.

Emphasis of matter - change in accounting principle

As described in the notes to the financial statements titled *recent accounting standards*, the Library implemented this new accounting guidance, ASU 2016-14, "*Not for Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*". Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Joseph T. Simpson Public Library's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 8, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.



GREENAWALT & COMPANY, P.C.

May 29, 2019

Mechanicsburg, Pennsylvania

FINANCIAL STATEMENTS

JOSEPH T. SIMPSON PUBLIC LIBRARY
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2018
WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2017

	2018				2017	
	Operating Fund	Property and Equipment Fund	Local Capital Projects Fund	Endowment Fund	Total	Total
<u>ASSETS</u>						
Current assets						
Cash	\$ 404,861	\$ -	\$ 105,979	\$ -	\$ 510,840	\$ 549,847
Investments, current	-	-	-	-	-	-
Total current assets	<u>404,861</u>	<u>-</u>	<u>105,979</u>	<u>-</u>	<u>510,840</u>	<u>549,847</u>
Property and equipment						
Land	-	314,330	-	-	314,330	314,330
Buildings	-	319,963	-	-	319,963	319,963
Improvements - land and building	-	2,669,987	-	-	2,669,987	2,611,659
Furniture and equipment	-	529,590	-	-	529,590	505,628
	-	3,833,870	-	-	3,833,870	3,751,580
Less accumulated depreciation	-	2,201,202	-	-	2,201,202	2,074,552
	<u>-</u>	<u>1,632,668</u>	<u>-</u>	<u>-</u>	<u>1,632,668</u>	<u>1,677,028</u>
Other assets						
Investments, noncurrent	301,612	-	-	2,000	303,612	320,655
Materials collection	-	2,128,909	-	-	2,128,909	2,050,486
Investments - endowment funds	-	-	-	315,810	315,810	324,761
	<u>301,612</u>	<u>2,128,909</u>	<u>-</u>	<u>317,810</u>	<u>2,748,331</u>	<u>2,695,902</u>
Total assets	<u>\$ 706,473</u>	<u>\$ 3,761,577</u>	<u>\$ 105,979</u>	<u>\$ 317,810</u>	<u>\$ 4,891,839</u>	<u>\$ 4,922,777</u>

(Continued)

The accompanying notes are an integral part of these financial statements.

JOSEPH T. SIMPSON PUBLIC LIBRARY
 STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS (Cont'd.)
 DECEMBER 31, 2018
 WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2017

	2018				2017	
	Operating Fund	Property and Equipment Fund	Local Capital Projects Fund	Endowment Fund	Total	Total
<u>LIABILITIES AND NET ASSETS</u>						
Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-	-	-
Net assets						
Without donor restrictions						
Board designated	-	3,761,577	105,979	-	3,867,556	3,854,344
Undesignated	706,473	-	-	-	706,473	743,672
Total without donor restrictions	<u>706,473</u>	<u>3,761,577</u>	<u>105,979</u>	-	<u>4,574,029</u>	<u>4,598,016</u>
With donor restrictions	-	-	-	317,810	317,810	324,761
Total net assets	<u>706,473</u>	<u>3,761,577</u>	<u>105,979</u>	<u>317,810</u>	<u>4,891,839</u>	<u>4,922,777</u>
Total liabilities and net assets	<u>\$ 706,473</u>	<u>\$ 3,761,577</u>	<u>\$ 105,979</u>	<u>\$ 317,810</u>	<u>\$ 4,891,839</u>	<u>\$ 4,922,777</u>

The accompanying notes are an integral part of these 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, 2018

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017

	2018				2017
	Operating Fund	Property and Equipment Fund	Local Capital Projects Fund	Endowment Fund	Total
Operating activities					
Unrestricted net assets					
Support and revenues					
Support					
Government aid	\$ 688,884	\$ -	\$ -	\$ -	\$ 688,884
Contributions and grants	151,687	-	-	-	151,687
Fundraisers	108,683	-	-	-	108,683
Donated materials and services	5,751	-	-	-	5,751
Total unrestricted support	955,005	-	-	-	955,005
Revenues					
Fines and assessments	39,027	-	-	-	39,027
Use charges and rentals	18,905	-	-	-	18,905
Investment income	(15,451)	-	639	-	(14,812)
Total unrestricted revenues	42,481	-	639	-	43,120
Net assets released from restrictions					
Satisfaction of spending restriction	-	-	-	-	-
Total unrestricted support, revenues and reclassifications	997,486	-	639	-	998,125
					1,023,139

(Continued)

The accompanying notes are an integral part of these financial statements.

JOSEPH T. SIMPSON PUBLIC LIBRARY

STATEMENT OF SUPPORT AND REVENUE, EXPENSES AND OTHER CHANGES IN NET ASSETS - MODIFIED CASH BASIS (Cont'd.)

YEAR ENDED DECEMBER 31, 2018

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017

	2018				2017	
	Operating Fund	Property and Equipment Fund	Local Capital Projects Fund	Endowment Fund	Total	Total
Operating activities (Cont'd.)						
Expenses						
Library program services	\$ 749,363	\$ -	\$ 6,078	\$ -	\$ 755,441	\$ 691,561
General and administrative	128,847	-	1,009	-	129,856	174,153
Fundraising	81,315	-	513	-	81,828	43,550
Total unrestricted expenses	959,525	-	7,600	-	967,125	909,264
Increase (decrease) in unrestricted net assets	37,961	-	(6,961)	-	31,000	113,875
Permanently restricted net assets						
Net increase (decrease) in endowment funds	-	-	-	(20,749)	(20,749)	30,136
Increase (decrease) in permanently restricted net assets	-	-	-	(20,749)	(20,749)	30,136
Changes in net assets from operations	37,961	-	(6,961)	(20,749)	10,251	144,011
Net assets - beginning	743,672	3,727,514	126,830	324,761	4,922,777	4,872,096
Other changes in unrestricted net assets						
Depreciation	129,930	(129,930)	-	-	-	-
Building improvements and equipment purchases net of basis - property disposed	(18,681)	85,571	(66,890)	-	-	-
Transfers to Local Capital Projects Fund	(53,000)	-	53,000	-	-	-
Transfers to Endowments	(13,798)	-	-	13,798	-	-
Library collection disposals	-	(41,189)	-	-	(41,189)	(93,330)
Library collection purchases	(119,611)	119,611	-	-	-	-
	(75,160)	34,063	(13,890)	13,798	(41,189)	(93,330)
Net assets - ending	\$ 706,473	\$ 3,761,577	\$ 105,979	\$ 317,810	\$ 4,891,839	\$ 4,922,777

The accompanying notes are an integral part of these financial statements.

JOSEPH T. SIMPSON PUBLIC LIBRARY
STATEMENT OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2018
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017

	2018				2017
	Library Program Services	General and Administrative	Fundraising	Total	Total
Operating Fund					
Salaries and wages	\$ 413,823	\$ 68,689	\$ 34,937	\$ 517,449	\$ 495,422
Payroll taxes	35,878	5,956	3,029	44,863	43,720
Employee benefits	34,135	5,666	2,882	42,683	56,161
Library supplies and programming	25,693	-	-	25,693	11,372
Postage and freight	3,067	509	259	3,835	1,913
Printing and office expenses	14,577	2,420	1,230	18,227	12,016
Utilities and telephone	28,168	4,675	2,378	35,221	32,658
Maintenance - building and equipment	37,566	6,235	3,172	46,973	36,430
Insurance	14,123	2,344	1,193	17,660	20,224
Travel and conferences	5,478	-	-	5,478	2,826
Professional fees	-	10,815	-	10,815	9,325
Merchant and collection fees	3,515	583	297	4,395	3,262
Payroll processing	4,219	700	356	5,275	4,791
Advertising and promotion	10,995	1,826	929	13,750	8,015
Computer expenses	1,815	301	153	2,269	1,024
Dues and memberships	3,976	660	336	4,972	1,687
Miscellaneous	1,327	220	112	1,659	1,959
Grant expenses	1,347	-	-	1,347	10,430
Fundraising	-	-	21,280	21,280	12,643
Depreciation	103,910	17,248	8,772	129,930	126,003
Donated materials and supplies	5,751	-	-	5,751	17,383
	<u>749,363</u>	<u>128,847</u>	<u>81,315</u>	<u>959,525</u>	<u>909,264</u>
Local Capital Projects Fund					
Maintenance - building and equipment	6,078	1,009	513	7,600	36,430
	<u>\$ 755,441</u>	<u>\$ 129,856</u>	<u>\$ 81,828</u>	<u>\$ 967,125</u>	<u>\$ 945,694</u>

The accompanying notes are an integral part of these financial statements.

JOSEPH T. SIMPSON PUBLIC LIBRARY
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2018
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017

	2018				2017
	Operating Fund	Local Capital Projects Fund	Endowment Fund	Total	Total
Operating activities					
Changes in net assets from operations	\$ 37,961	\$ (6,961)	\$ (20,749)	\$ 10,251	\$ 144,011
Adjustments to reconcile changes in net assets from operations to net cash provided by (used in) operating activities					
Depreciation	129,930	-	-	129,930	126,003
Realized (gain) loss on sale of investments	(13,920)	-	-	(13,920)	-
Unrealized (gain) loss on investments	46,812	-	-	46,812	-
Net (increase) decrease in endowment funds	-	-	20,749	20,749	(30,136)
Net cash provided by (used in) operating activities	<u>200,783</u>	<u>(6,961)</u>	<u>-</u>	<u>193,822</u>	<u>239,878</u>
Investing activities					
Payment for purchase of materials collection	(119,611)	-	-	(119,611)	(116,837)
Payment for purchase of property and equipment	(18,681)	(66,890)	-	(85,571)	(37,920)
Payments for new endowment and investments	(13,798)	-	-	(13,798)	(18,255)
Transfers from Operating Fund	(53,000)	53,000	-	-	-
Payment for purchase of investments	(90,612)	-	-	(90,612)	(320,655)
Proceeds from sale of investments	76,763	-	-	76,763	-
Net cash provided by (used in) investing activities	<u>(218,939)</u>	<u>(13,890)</u>	<u>-</u>	<u>(232,829)</u>	<u>(493,667)</u>
Net increase (decrease) in cash	(18,156)	(20,851)	-	(39,007)	(253,789)
Cash, beginning	<u>423,017</u>	<u>126,830</u>	<u>-</u>	<u>549,847</u>	<u>803,636</u>
Cash, ending	<u>\$ 404,861</u>	<u>\$ 105,979</u>	<u>\$ -</u>	<u>\$ 510,840</u>	<u>\$ 549,847</u>

The accompanying notes are an integral part of these financial statements.

JOSEPH T. SIMPSON PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Joseph T. Simpson Public 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. The Library has incorporated logical modifications to the pure cash basis to increase understanding and usefulness by the users of the financial statements. Modifications made to the cash basis include capitalization of land, building, equipment and library materials collection, recording of depreciation and recognition of long-term debt, if any, and reporting of endowment funds and investments at fair market value.

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 Directors.

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.

JOSEPH T. SIMPSON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
DECEMBER 31, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Basis of presentation (Cont'd.)

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.

Property and Equipment Fund

Unrestricted net assets of the property and equipment fund represent costs capitalized as acquisitions of land, building and improvements, furnishings 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 all 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.

Measure of operations

The statements of activities report all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Library's ongoing programs and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments.

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.

JOSEPH T. SIMPSON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
DECEMBER 31, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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, 2017 from which the summarized information was derived.

Income taxes

The Library is a non-profit organization which is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The standards require an assessment of the Library's exposure to income taxes at the entity level as a result of uncertain tax positions taken in current and previously filed tax returns. Examples of tax positions taken at the entity level include the continuing validity of its 501(c)(3) status, potential unrelated business activities and other tax positions that could result in income taxes to the Library upon examinations by taxing authorities. If the Library presented financial statements in accordance with generally accepted accounting principles, any tax benefits associated with uncertain tax positions that are in excess of a realization threshold would be recorded as a liability for unrecognized tax benefits in the financial statements, along with any associated interest and penalties. Presently, management believes that it is more likely than not that its tax positions will be sustained upon examination, including any appeals and litigation, and therefore believes that the Library has no exposure to the income taxes from uncertain tax positions.

The Library's Federal Exempt Organization Business Income Tax Return (Form 990) for 2016, 2017 and 2018 are subject to examination by the IRS, generally for three years after they were filed.

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 recorded at their fair values. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the change in unrestricted net assets unless the income or loss is restricted by donor or law.

JOSEPH T. SIMPSON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
DECEMBER 31, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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 statements of activities. 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 foundation 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 (Cont'd.)
 DECEMBER 31, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

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 revenue collected and expenses 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:

<u>Expense</u>	<u>Method of Allocation</u>
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 (Cont'd.)
DECEMBER 31, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Subsequent events

In preparing these financial statements, the Library has evaluated events and transactions for potential recognition or disclosure through May 29, 2019, the date the financial statements were available to be issued.

NEW ACCOUNTING PRONOUNCEMENTS

For 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-14, *“Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities”*. This amendment aims to improve how a nonprofit organization classifies its net assets and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity. The ASU changes the net asset classifications, requires presentation of expenses both by nature and function, requires investment return reported net of investment expenses, requires placed-in-service approach for gifts of/for long-lived assets, and provides enhanced disclosures for: governing body restrictions; composition of net assets with donor restrictions; qualitative and quantitative information on liquidity; methods to allocate costs among program and support functions; and underwater donor-restricted endowment funds. The Library has implemented ASU 2016-14 in the current year. The Library has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented. There was no impact on net asset balances.

ASU 2014-09, *“Revenue from Contracts with Customers,”* is effective for the Library’s financial statements for the year ending December 31, 2019 (as amended by ASU 2015-14). This amendment provides guidance for revenue recognition related to contracts with transfer of promised goods or services to customers and related disclosures.

ASU 2016-02, *“Leases (Topic 842),”* effective for the Library’s financial statements for the year ending December 31, 2020. This amendment will require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than twelve months. Disclosures also will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

ASU 2018-08, *“Topic 958, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made”*, is effective for the Library’s financial statements for the year ending December 31, 2019. The new guidance clarifies what an exchange transaction, of which revenues would be reported under Topic 606, and what is a contribution reported under Topic 958.

There are other FASB pronouncements that will become effective for future reporting periods. The Library does not currently anticipate any significant impact on the Library’s financial statements from these pronouncements.

JOSEPH T. SIMPSON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
DECEMBER 31, 2018

CASH AND CREDIT RISK

The Library's cash balances at December 31, 2018 consist of cash-in-bank, checking, savings and money market accounts at several financial institutions as follows:

<u>Cash</u>	<u>Carrying Value</u>	<u>Bank Balance</u>
Non interest-bearing and cash on hand	\$ 111	\$ 5
Interest-bearing checking accounts	265,935	295,652
Interest-bearing savings and money market accounts	<u>244,794</u>	<u>244,794</u>
	<u>\$ 510,840</u>	<u>\$ 540,451</u>

At times during the year, the amount on deposit with these financial institutions may exceed available FDIC insurance coverage limits. Management believes that it is not exposed to any significant credit risk on its cash accounts.

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, designated 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.

Investments are presented in the financial statements in the aggregate at fair market value at:

	<u>Cost</u>	<u>Fair Market Value</u>
Money market fund	\$ 12,832	\$ 12,832
Fixed income mutual funds	145,349	138,760
Equity securities	<u>176,228</u>	<u>152,020</u>
	<u>\$ 334,409</u>	<u>\$ 303,612</u>
Noncurrent	<u>\$ 334,409</u>	<u>\$ 303,612</u>

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.

JOSEPH T. SIMPSON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
DECEMBER 31, 2018

INVESTMENTS - ENDOWMENT FUNDS

Endowment Fund investments at December 31, 2018 consists of:

Book Fund Endowment - Donor Restricted - local foundation	\$ 19,371
General Endowment - Board Designated Quasi endowment - local foundation	279,188
General Endowment - Board Designated Quasi endowment - local brokerage	<u>17,251</u>
	<u>\$ 315,810</u>

Book Fund Endowment - Donor Restricted

Endowment 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 bequeathed. Additions may be made to the Fund at any time. The funds are invested in 56% equity funds and 44% fixed income at the foundation 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. 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 2018 and 2017, the Library's Board of Trustees elected to have the annual distribution reinvested in the endowment fund principal.

Changes in donor-restricted endowment net assets for the year ended December 31, 2018:

Endowment net assets, beginning of year	\$ <u>20,735</u>
Contributions/reinvested grant funds	<u>746</u>
Investment return	
Interest and dividend income	515
Net realized and unrealized gains (losses)	(1,455)
Investment-related fees	<u>(424)</u>
Total investment return	<u>(1,364)</u>
Appropriation of endowment assets for expenditure	<u>(746)</u>
Endowment net assets, end of year	<u>\$ 19,371</u>

JOSEPH T. SIMPSON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
DECEMBER 31, 2018

INVESTMENTS - ENDOWMENT FUNDS (Cont'd.)

General Endowments - Board Designated

Endowment funds are invested in trust at a local community foundation (TFEC) and 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 56% equity funds and 44% fixed income at the foundation 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. 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 2017, the Library's Board of Trustees elected to have the annual distribution reinvested in the endowment fund principal, however in 2018 the TFEC annual distribution of \$ 9,501 was withdrawn, transferred and invested in the new Endowment at OFA. The new endowment, opened in December 2018, was invested solely in a Federated Government money market at December 31, 2018.

Changes in board designated endowment net assets for the year ended December 31, 2018:

	<u>Total</u>	<u>TFEC</u>	<u>OFA</u>
Endowment net assets, beginning of year	\$ 304,026	\$ 304,026	\$ -
Contributions/reinvested grant funds	<u>9,501</u>	<u>-</u>	<u>9,501</u>
Investment return			
Interest and dividend income	7,509	7,509	-
Net realized and unrealized gains (losses)	(20,691)	(20,691)	-
Investment-related fees	<u>(6,203)</u>	<u>(6,203)</u>	<u>-</u>
Total investment return	<u>(19,385)</u>	<u>(19,385)</u>	<u>-</u>
Board designated transfers	<u>11,798</u>	<u>4,048</u>	<u>7,750</u>
Appropriation of endowment assets for expenditure	<u>(9,501)</u>	<u>(9,501)</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 296,439</u>	<u>\$ 279,188</u>	<u>\$ 17,251</u>

At December 31, 2018, \$ 2,000 of 2018 endowment contributions were deposited to and held in the Library's Reserve Fund investments to be transferred to the new OFA Endowment in 2019.

JOSEPH T. SIMPSON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
DECEMBER 31, 2018

NET ASSETS WITH DONOR RESTRICTIONS

Permanently restricted net assets at December 31, 2018 consists of three separate endowment funds as described above.

The first endowment was created in 2000 at TFEC from donor bequeathed 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 2018 or 2017 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 funds to the Library in the amount of \$ 100,000 and were deposited into the Library's Capital reserve fund. The donor has restricted these funds "to be used to purchase art, preferably an indoor or outdoor sculpture" to be considered a gift from the donor's family. During 2010, the Library expended \$ 44,477 of these restricted funds on several sculptures on the Library premises, and the remaining balance of \$ 55,523 was released by the donor of the temporary restriction to use to purchase art by the Library and was transferred to the unrestricted operating fund. Subsequently, the Library Board, with approval by the donor, transferred the remaining \$ 55,523 as "seed money" for their newly established endowment fund at a local foundation. 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 income grant received by the Library in 2017, as approved by the Library's Board of Trustees was reinvested back into the endowment fund. A new general endowment fund was opened in December 2018 at a local financial institution brokerage (OFA) for any new Endowment contributions received going forward.

DESIGNATED FUNDS

The Board of Trustees designated in prior years certain funds invested in money markets as Capital Funds. Capital reserve funds are to be used for future payment of capital improvements to the building. Operating reserves are to be used to support the operations of the Library at the discretion of the Board.

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.

JOSEPH T. SIMPSON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
DECEMBER 31, 2018

FAIR VALUE MEASUREMENTS (Cont'd.)

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, 2018.

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

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.

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, 2018.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money Market Fund	\$ 12,832	\$ 12,832	\$ -	\$ -
Fixed Income Mutual funds	138,760	138,760	-	-
Equity securities	152,020	152,020	-	-
Endowment Funds	<u>317,810</u>	<u>-</u>	<u>-</u>	<u>317,810</u>
 Total	 <u>\$ 621,422</u>	 <u>\$ 303,612</u>	 <u>\$ -</u>	 <u>\$ 317,810</u>

JOSEPH T. SIMPSON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
DECEMBER 31, 2018

FAIR VALUE MEASUREMENTS (Cont'd.)

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

Endowment Funds	
Balance, January 1, 2018	\$ 324,761
Additions - transfers in	11,798
Investment income - net	11,989
Unrealized gain (loss)	(32,738)
Distributions	<u> -</u>
Balance, Endowment Investments at December 31, 2018	315,810
2018 Endowment contributions not transferred in until 2019	<u> 2,000</u>
Endowment - net assets with donor restrictions at December 31, 2018	<u><u>\$ 317,810</u></u>

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 statements of revenue, gains and expenses and changes in net assets - modified cash basis.

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, 2018, there were no significant transfers in or out of levels 1, 2 or 3.

JOSEPH T. SIMPSON PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

DECEMBER 31, 2018

PROPERTY AND EQUIPMENT AND ACCUMULATED DEPRECIATION

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

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	\$ 314,330	\$ -	\$ 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>
Total	<u>\$ 3,833,870</u>	<u>\$ 2,201,202</u>	<u>\$ 1,632,668</u>

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, 2018. Collection disposals for 2018 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.

CONCENTRATIONS

Joseph T. Simpson Public Library received approximately 69% and 66% of their total operating support and revenue from the Commonwealth of Pennsylvania and Cumberland County for the years ended December 31, 2018 and 2017, respectively. The County aid is allocated to local public libraries primarily from a county-wide Library tax assessment.

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.

JOSEPH T. SIMPSON PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
DECEMBER 31, 2018

AVAILABILITY AND LIQUIDITY

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

Cash	\$ 510,840
Investments - noncurrent	303,612
Investments - endowment funds	<u>315,810</u>
Total financial assets	<u>1,130,262</u>
Less amounts not available to be used within one year	
Net assets with donor restrictions	(317,810)
Board Designated Local Capital Projects Fund	(105,979)
Board Designated Investments, noncurrent – Operating Reserve Fund	<u>(301,612)</u>
	<u>725,401</u>
Financial assets available to meet general expenses within one year	<u>\$ 404,861</u>

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.