

Audited
Financial
Statements

December 31,
2018

ADAMS COUNTY
LIBRARY



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Adams County Library System, Inc.
Gettysburg, Pennsylvania

We have audited the accompanying financial statements of the Adams County Library System, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses and cash flows 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Adams County Library System, Inc. as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, for the year ended December 31, 2018, the Organization adopted new accounting guidance, Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

Amite Elliott Hearn & Company, LLC

Hanover, Pennsylvania
July 11, 2019

ADAMS COUNTY LIBRARY SYSTEM, INC.
Statement of Financial Position
December 31, 2018

ASSETS

Cash and cash equivalents	\$ 207,580
Accounts/fines receivable, net of allowance for doubtful account of \$138,236	56,250
Other receivables	56,320
Promises to give - contributions	49,000
Promises to give - leases	470,270
Prepaid expenses	33,629
Property and equipment, net of accumulated depreciation	2,998,829
Long-term investments	2,844,377
Perpetual trusts held by third-parties	2,314,993
Interest in assets of community foundation	57,619

TOTAL ASSETS	\$ 9,088,867
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LIABILITIES AND NET ASSETS

Liabilities

Line of credit	\$ 150,000
Accounts payable	73,565
Accrued payroll and vacation	97,594
Accrued expenses	165
Deferred revenue	13,775
Total Liabilities	335,099

Net Assets

Without donor restrictions	
Undesignated	5,284,855
Board designated - outreach	79,666
Total without donor restrictions	5,364,521
With donor restrictions	
Time-restriction for future periods	519,270
Purpose restrictions	106,348
Perpetual in nature restrictions	2,763,629
Total with donor restrictions	3,389,247

Total Net Assets	8,753,768
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TOTAL LIABILITIES AND NET ASSETS	\$ 9,088,867
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ADAMS COUNTY LIBRARY SYSTEM, INC.
Statement of Activities
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions and gifts	\$ 216,558	\$ 87,664	\$ 304,222
Local government support	1,030,450	-	1,030,450
State government support	567,353	-	567,353
Fees, fines, and miscellaneous income	40,921	-	40,921
Fundraising	16,040	-	16,040
Interest income	645	-	645
Net investment return	(140,958)	(36,494)	(177,452)
Change in value of perpetual third-party trusts, net	87,248	(247,418)	(160,170)
Change in interest in net assets of			
Community Foundation, net	(2,399)	-	(2,399)
Net assets released from restrictions	<u>53,171</u>	<u>(53,171)</u>	<u>-</u>
Total Support and Revenue	1,869,029	(249,419)	1,619,610
OPERATING EXPENSES			
Program services	1,902,571	-	1,902,571
Supporting services			
General and administration	569,928	-	569,928
Fundraising	<u>103,142</u>	<u>-</u>	<u>103,142</u>
Total Supporting Services	<u>673,070</u>	<u>-</u>	<u>673,070</u>
Total Operating Expenses	<u>2,575,641</u>	<u>-</u>	<u>2,575,641</u>
Change in net assets	(706,612)	(249,419)	(956,031)
NET ASSETS AT BEGINNING OF YEAR - AS RESTATED			
	<u>6,071,133</u>	<u>3,638,666</u>	<u>9,709,799</u>
NET ASSETS AT END OF YEAR			
	<u>\$ 5,364,521</u>	<u>\$ 3,389,247</u>	<u>\$ 8,753,768</u>

ADAMS COUNTY LIBRARY SYSTEM, INC.
Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services	Supporting Services		Totals
		General and Administration	Fundraising	
Employee Related Expenses				
Salaries and wages	\$ 783,073	\$ 380,780	\$ 54,075	\$ 1,217,928
Employee benefits and payroll taxes	238,873	112,807	16,019	367,699
Travel and conferences	5,576	2,711	385	8,672
Other employee expenses	6,005	2,920	415	9,340
	<u>1,033,527</u>	<u>499,218</u>	<u>70,894</u>	<u>1,603,639</u>
Expenses Directly Allocated				
Circulation expense	55,979	-	-	55,979
Depreciation - collection	342,251	-	-	342,251
Advertising	10,411	-	3,471	13,882
ACCESS PA Conversion	885	-	-	885
Fundraising expense	-	-	26,801	26,801
Memorials and named endowments program materials	21,291	-	-	21,291
Professional fees	-	31,229	-	31,229
Programming	28,052	-	-	28,052
Rental expense - facilities	77,622	-	-	77,622
Vehicle expense	5,458	-	-	5,458
Support contracts	45,009	-	-	45,009
Grant expenses	14,901	-	-	14,901
Interest expense	-	3,463	-	3,463
	<u>601,859</u>	<u>34,692</u>	<u>30,272</u>	<u>666,823</u>
Occupancy Expenses				
Depreciation - building and equipment	73,232	9,796	541	83,569
Equipment and service contracts	38,332	5,127	283	43,742
Dues and meetings	3,771	784	28	4,583
Insurance	11,183	1,496	83	12,762
Miscellaneous expenses	14,566	1,948	108	16,622
Postage and shipping	3,104	415	23	3,542
Rental expense - parking	8,763	1,172	65	10,000
Repairs and maintenance	43,326	5,796	320	49,442
Supplies	18,631	2,491	138	21,260
Telephone and internet expenses	19,563	2,617	145	22,325
Utilities	32,714	4,376	242	37,332
	<u>267,185</u>	<u>36,018</u>	<u>1,976</u>	<u>305,179</u>
Total Functional Expenses	<u>\$ 1,902,571</u>	<u>\$ 569,928</u>	<u>\$ 103,142</u>	<u>\$ 2,575,641</u>

ADAMS COUNTY LIBRARY SYSTEM, INC.
Statement of Cash Flows
Year Ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (956,031)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	425,820
Net realized and unrealized loss on investments	273,174
Change in value of perpetual third-party trusts/assets	247,418
Change in interest in net assets of Community Foundations	5,092
(Increase) decrease in assets:	
Accounts/fines receivables	5,751
Promises to give	(16,978)
Other receivables	37,051
Prepaid expenses	35,939
Increase (decrease) in liabilities:	
Accounts payable	35,493
Accrued payroll and vacation	1,616
Accrued expenses	(11,037)
Deferred revenue	9,550
Net Cash Provided By Operating Activities	<u>92,858</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(32,692)
Purchases of books and audio visual materials	(270,467)
Purchases of investments	(573,228)
Sales of investments	917,763
Net Cash Provided By Investing Activities	<u>41,376</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Net change in line of credit	<u>20,000</u>
Net Cash Provided By Financing Activities	<u>20,000</u>
Net Increase In Cash and Cash Equivalents	154,234
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>53,346</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 207,580</u>

ADAMS COUNTY LIBRARY SYSTEM, INC.
Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Adams County Library System, Inc. (the Library) was incorporated in 1945 in the state of Pennsylvania as an independent library serving the citizens of Adams County. It operates a main library in Gettysburg, Pennsylvania with branches in New Oxford, Biglerville, Carroll Valley, and Littlestown, Pennsylvania. The Library also operates an outreach department that services the local area. The Library also serves as a support library, distributing supporting revenues and assisting with collection purchasing for the East Berlin Community Library d/b/a Jean Barnett Trone Memorial Library of East Berlin.

The Library is supported primarily through local and state government support, contributions and investment income. Without this public support, the Library's ability to carry out its program services would be significantly reduced.

Basis of Accounting

The Library's records are maintained and these statements are presented on the accrual basis of accounting in conformity with generally accepted accounting principles (GAAP). Under this basis, revenue is recognized in the period earned and expenses in the period incurred.

Change in Accounting Principles

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) Presentation of Financial Statements on Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Library has implemented ASU 2016-14 and has adjusted the presentation in these financial statements for 2018.

Basis of Presentation

To ensure observance of limitations and restrictions placed on the use of resources available to the Library, the accounts are reported in accordance with the principles of accounting for not-for-profits. Accordingly, the Library is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. In addition, the Library is required to present a statement of cash flows. Net assets of the Library and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations, including those that are Board designated.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Library and/or the passage of time or are to be maintained permanently by the Library.

ADAMS COUNTY LIBRARY SYSTEM, INC.
Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Library considers all unrestricted, highly liquid investments outside of brokerage/investment accounts with an initial maturity of three months or less, as well as certificates of deposit that have minimal penalties for early withdrawal, to be cash equivalents.

Accounts/Fines Receivable

The Library's management periodically evaluates the collectability of outstanding accounts/fines receivable and establishes an allowance for doubtful accounts. The allowances are determined based upon factors surrounding the credit risk and historical trends and are adjusted by a change to bad debt expense. Amounts determined to be uncollectible are charged against the allowance in the year that the determination is made.

Promises to Give/Contributions and Gifts

Contributions and gifts are recognized when the donor makes a promise to give to the Library that is, in substance, unconditional. Contributions and gifts that are restricted by the donor are reported as increases in net assets without restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions and gifts are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are classified to net assets without donor restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount on these amounts are computed using interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

The Library considers promises to give to be fully collectible. If collection becomes doubtful, an allowance for uncollectible promises to give will be established, or the promises to give will be charged to income when that determination is made by management. Unpaid balances remaining after the stated promise terms are considered past due. Recoveries of previously charged-off promises to give are recorded when received.

Donated Assets and Services

Donated assets and services are reported in the accompanying financial statements at their fair market value as of the date of contribution. The value of donated assets and services meeting the requirements for recognition in the financial statements under GAAP was not significant in 2018 and are not reflected in the statement of activities. In addition, a substantial number of volunteers have donated significant amounts of their time to the Library's activities.

During the year ended December 31, 2018, the Library received approximal \$27,000 in donated discounts and free tickets to events and restaurants that were handed out to patrons and program participants during the year. This transaction is considered an agency transaction. Therefore, the value of the donated items is not reflected in the accompanying financial statements.

ADAMS COUNTY LIBRARY SYSTEM, INC.
Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expense Classification

The cost of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification and detail of expenses by function. Accordingly, certain cost have been allocated among program and supporting services benefited.

Property and Equipment

All acquisitions of property and equipment in excess of \$ 500 and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are stated at cost, or if donated, at fair market value at the date of donation. Expenditures for maintenance and repairs not described above are charged to expense as incurred. When depreciable assets are retired or otherwise disposed of, the costs and accumulated depreciation are removed from the accounts, with any gain or loss included in the statement of activities in the period of disposal.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

	Years
Building and Improvements	25 - 48
Furniture and Fixtures	10
Computer Equipment	3
Books and Other Materials	10
Bookmobile and Van	7

Investments

The Library carries investments at fair value in the statement of financial position. Realized and unrealized gains and losses are recorded along with dividends, interest, and other investment income in the accompanying statement of activities and charged to net assets without donor restrictions unless the donor stipulates otherwise.

Investments of the Library are exposed to various risks, such as interest rate, market, currency and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment assets reported in the financial statements.

Beneficial Interest in Perpetual Trusts

Gifts received under the terms of trust or other agreements in which the Library has beneficial interest are accounted for as perpetual trusts held by third parties. The time period covered by these agreements is expressed either as a specific number of years or in perpetuity.

Under such arrangements, the assets are invested and administered by the Library, a Trustee, or a fiscal agent and distributions are made to a beneficiary during the term of the agreement. At the end of the agreement's term, the remaining assets covered by the agreement are distributed to or retained by either the Library or another beneficiary.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Beneficial Interest in Perpetual Trusts (continued)

In the absence of donor-imposed conditions, the Library recognizes contribution revenue and related assets and liabilities when irrevocable perpetual trust agreements naming the Library as Trustee or fiscal agent are executed or, when the Library is notified of the agreement's existence, in cases where an unrelated third party (such as a bank) acts as Trustee.

Contribution revenues recognized under perpetual trust agreements are classified as increases in net assets without donor restrictions or net assets with donor restrictions based on the donor's instructions in the underlying agreement. During the term of the agreement, changes in the value of perpetual trust agreements are recognized in the statement of activities as "change in value of perpetual third-party trusts, net" and classified as net assets without donor restrictions or net assets with donor restrictions based upon the classification when the contribution was initially recognized. Upon termination of the agreement, asset and liability accounts related to the perpetual trust agreements are closed and any remaining amounts are recognized as changes in the value of perpetual trust agreements and classified in the appropriate net asset category.

Interest in Net Assets of a Community Foundation

Interest in net assets of a community foundation is reported at fair value as determined by the community foundation. See Note 6.

Concentration of Credit Risk

The Library maintains its cash balances in financial institutions located in Pennsylvania. Cash deposits may exceed the federally insured limits at various times throughout the year. Management does not believe that there is a significant risk of loss as a result of these excess deposits.

Advertising

The Library charges advertising costs to expense as incurred. Advertising expense was \$13,882 for the year ended December 31, 2018.

Income Taxes

No provision is made for income taxes because the Library is a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code. The Library is not deemed to be a private foundation by the Internal Revenue Service.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Library and recognize the tax liability if the Library has taken uncertain positions that more likely than not would not be sustained upon examination by the government authority. The Library is subject to routine audits by taxing jurisdictions, generally for a period of three years after the returns are filed; however, there are currently no audits for any tax periods in progress.

ADAMS COUNTY LIBRARY SYSTEM, INC.
Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of support, revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 PROMISES TO GIVE

Leases

The Library leases the New Oxford Area Library branch premises from the Borough of New Oxford. The lease is for fifty years, effective in 1994, with annual payments of \$ 1. The fair market value of the annual rent has been determined to be \$ 9,600. The remaining net present value of the contributed use of the premises under a fifty year lease is \$ 104,904 at December 31, 2018, and is included in the accompanying statement of financial position as a promise to give. The annual rental expense value of \$ 9,600 and the amortization of the discount at 8% have been included in the statement of activities.

The Library leases the Biglerville branch premises from the Harbaugh/ Thomas Foundation. The lease is for twenty-five years, effective 2007, with annual payments of \$ 1. The fair value of the annual rent has been determined to be \$ 36,000. The net present fair value of the contributed use of the premises under a twenty-five year lease is \$ 365,366 at December 31, 2018, and is included in the accompanying statement of financial position as a promise to give. The annual rental expense value of \$ 36,000 and the amortization of the discount at 4.5% have been included in the statement of activities.

Future reductions in promises to give-leases are as follows as of December 31:

	2018		
Years	New Oxford	Biglerville	Total
Received in less than one year	\$ 1,253	\$ 19,967	\$ 21,220
Received in one to five years	8,008	114,467	122,475
Received in more than five years	95,643	230,932	326,575
Total	<u>\$ 104,904</u>	<u>\$ 365,366</u>	<u>\$ 470,270</u>

Contributions

The Library received promises to give from three donors in 2018 totaling \$ 49,000. Unconditional promises to give consisted of the following as of December 31:

	2018
Less than one year	\$ 43,000
One year to five years	6,000
Total promises to give	<u>\$ 49,000</u>

ADAMS COUNTY LIBRARY SYSTEM, INC.
Notes to Financial Statements

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment and accumulated depreciation consist of the following at December 31:

	2018
Land, buildings and improvements	\$ 2,141,916
Furniture, fixtures and computers	833,702
Books and other materials	3,566,781
Statue	1,230,453
Bookmobile and van	<u>203,757</u>
	7,976,609
Less accumulated depreciation	<u>(4,977,780)</u>
Net property and equipment	<u>\$ 2,998,829</u>

Depreciation expense amounted to \$ 425,820 for 2018.

During 2012 a statue of Abraham Lincoln was given to the Library. The fair market value of the statute on the date given was \$ 1,230,453. It was placed in front of the Library during 2013. The statue is carried at the fair market value as of the date of the gift and is not depreciated due to the extraordinarily long useful life of the historical treasure.

NOTE 4 INVESTMENTS

The Library maintains investment accounts at ACNB Bank and PNC Bank and holds 52 shares of Penn Products Corporate Stock. The accounts are comprised of Library assets that the Board of Trustees and/or donors have set aside for long-term viability of the Library. Bequests and other significant contributions are added to the investment accounts at the discretion of the Board and/or donors, annually. Fair values are determined based on quoted market prices.

Net investment return reported in the statement of activities have been reduced by investment expenses of \$ 20,641 for the year ended December 31, 2018.

The investment accounts are invested consistent with investment policies that are monitored by the board of trustees. The investment policies employed are meant to achieve long-term growth while providing modest investment income which would be available for current funding. Funds are primarily invested in mutual funds or similar investments.

Investments were comprised of the following at December 31:

		2018	
	Cost	Fair Market Value	Unrealized Gain (Loss)
Cash equivalents	\$ 99,039	\$ 99,039	\$ -
Fixed income mutual funds	997,637	963,756	(33,881)
Equity mutual funds and exchange traded funds	1,579,717	1,778,982	199,265
Corporate stock	<u>4,860</u>	<u>2,600</u>	<u>(2,260)</u>
	<u>\$ 2,681,253</u>	<u>\$ 2,844,377</u>	<u>\$ 163,124</u>

ADAMS COUNTY LIBRARY SYSTEM, INC.
Notes to Financial Statements

NOTE 5 BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The Library is a beneficiary of several perpetual trusts which are administered by third-party trustees. Under the terms of the trust agreements, the Library has the irrevocable right to receive its beneficial portion of income earned on the trust assets in perpetuity, but it will never receive the assets held in trust. The Library's proportionate share of income from third-party trusts range from 7.5% to 100%. The underlying trust agreements place no restrictions on the use of the income. The Library has recorded its beneficial interest in the trusts as net assets with donor restrictions that are perpetual in nature. Distributions from the Trusts are reported as without donor restrictions and the change in the Library's proportionate share of the fair value of the trusts' assets is recognized as with donor restrictions recognizing the gains or losses and are reported as change in value of perpetual third-party trusts, net on the statement of activities. The fair value of the Library's beneficial interest in the trust assets was \$2,314,993 at December 31, 2018.

Income from the perpetual trusts for the year ended December 31, 2018 was \$87,248 and is reflected as without donor restriction income in the statement of activities.

NOTE 6 INTEREST IN NET ASSETS OF A COMMUNITY FOUNDATION

In 2010 the Library created, and is the beneficiary of, an Agency Endowment Fund with the Adams County Community Foundation. The Foundation maintains variance power over distributions from the funds, based upon the Foundation's spending policy. The Foundation considers the investment return for the past year and recommends a spending policy annually with a stated fixed amount, which was \$ 2,693 for the year ended December 31, 2018. There were no contributions to the fund for the year ended December 31, 2018. The fund is considered a without donor restriction asset because the Library funded the Agency Endowment and is considered the beneficiary of the Fund. The fair value of the Endowment was \$57,619 as of December 31, 2018.

NOTE 7 ENDOWMENTS

The Library's endowments consist of (1) a donor-restricted named endowment fund, (2) the Musselman Foundation endowment fund and (3) a general endowment designated by the trustees of the Library. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the trustees of the Library, are classified and reported as net assets without or with donor restrictions based on the existence or absence of donor-imposed restrictions. The classification is based on the Trustee's interpretation of Pennsylvania's statutes that govern such endowments and its interpretations of donor intent and related endowment bylaws.

The Library considers several factors when making a determination to appropriate or accumulate donor-restricted endowment funds. These factors include the duration and preservation of the fund, the mission of the Organization, the purpose of any donor restrictions, general economic conditions, the possible effects of inflation and deflation, the expected total return from income and the appreciation of investments, and other resources.

NOTE 7 ENDOWMENTS (CONTINUED)

Named Endowment Fund

The Library provides an opportunity to donors to contribute a minimum of \$ 5,000 (increase from \$1,000 in June 2018) to be given in an individual's name. The initial contribution and any additional contributions to the Named Endowment Fund are donor restricted and perpetual in nature. The net appreciation from the endowment will be used to provide educational library programs (including materials) and any unspent earnings will be accounted for as net assets with donor restrictions for this specified purpose. From time to time, the named endowment donor-restricted endowment fund may have fair values less than the amount required to be maintained by donors or by law. At December 31, 2018, funds with original giving values of \$474,108, fair values of \$438,636, and deficiencies of \$35,472 were reported in net assets with donor restrictions. These amounts were fully recovered during the first quarter of 2019 due to favorable market fluctuations.

The investment policy for the Named Endowment is to achieve growth and income within a balanced portfolio strategy with PNC Bank. Investment policy sets investment ranges at 65% - 75% equities, 25% - 35% fixed income and 0% - 10% cash equivalents.

Musselman Foundation Endowment

In 1979 the Musselman Foundation established an endowment with an initial contribution of \$ 50,000. Per donor stipulations the Library is to receive quarterly payments of investment net income that can be used per the Board's determination (without donor restriction). The donor further stipulated that the initial contribution can be spent with a two-third's vote from the board. If such a decision is made by the board, the portion of principal being spent can be used for the bookmobile, books, and additions/improvements to the library. Based on this stipulation, the initial principal contribution is reported as net assets with donor restrictions subject to expenditure for specified purpose.

The investment policy for the Musselman Foundation Endowment is to achieve growth and income within a balanced portfolio strategy with PNC Bank. Investment policy sets investment ranges at 65% - 75% equities, 25% - 35% fixed income and 0% - 10% cash equivalents.

General Endowment

In 1972 the Library board established an endowment that is held at ACNB to hold large contributions from estates and gifts the board has elected to maintain long term. While the endowment can hold donor restricted contributions, no such donor requests have been made to date. Consequently, net assets associated with the general endowment funds are classified as net assets without donor restrictions.

The investment policy for the general endowment has the primary goal to provide growth and, when needed, income from investments to assist in meeting financial needs. The investment objective is the growth of principal without incurring excess risks. The policy states a balanced profile should be maintained with a 75% equity and 25% fixed income allocation.

ADAMS COUNTY LIBRARY SYSTEM, INC.
Notes to Financial Statements

NOTE 7 ENDOWMENTS (CONTINUED)

The changes in endowment net assets were as follows for 2018:

	Named Endowment Fund	Musselman Foundation Endowment	General Endowment
Endowment net assets, beginning of year	\$ 448,123	\$ 110,048	\$ 535,634
Contributions	25,985	-	5,475
Investment income, net of fees	20,012	4,209	12,659
Realized and unrealized appreciation (depreciation) of investments	(42,398)	(9,889)	(45,387)
Funding provided for organization use	(13,086)	(5,026)	(24,881)
Endowment net assets, end of year	<u>\$ 438,636</u>	<u>\$ 99,342</u>	<u>\$ 483,500</u>
Investments are restricted as follows:			
Without donor restrictions	\$ -	\$ 49,342	\$ 483,500
With donor restrictions - purpose restrictions	-	50,000	-
With donor restrictions - perpetual in nature	438,636	-	-
	<u>\$ 438,636</u>	<u>\$ 99,342</u>	<u>\$ 483,500</u>

NOTE 8 LIQUIDITY AND AVAILABILITY

The Library's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

	2018
Cash and cash equivalents	\$ 140,574
Accounts/fines receivable, net (less than one year)	11,250
Other receivables	56,320
Promises to give - contributions (less than one year)	43,000
Long-term investments not restricted by donor or trustee restrictions	<u>2,276,733</u>
	<u>\$ 2,527,877</u>

None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. Cash in the amount of \$67,006 and long-term investments in the amount of \$567,644 has been excluded above, for amounts designated by donors for certain purpose restrictions and limitations enacted by the board of trustees. The Library has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As part of its liquidity management, the Library invest its cash in excess of daily requirements in various short-term investments, including money market accounts. Also, as more fully described in Note 11, the Library has two lines of credit with availability of \$250,000 at December 31, 2018, which it could draw down upon in the event of an unanticipated liquidity need.

ADAMS COUNTY LIBRARY SYSTEM, INC.
Notes to Financial Statements

NOTE 9 FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities that the organization can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs that are unobservable inputs for the asset or liability.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2018.

Money Market Accounts: Money markets are valued at stable \$ 1.00 net asset value which is the value at which the fund is traded and approximates fair value based on the fair value of the underlying investments.

Mutual funds and exchange traded funds: Valued at the daily closing price as reported by the fund. Mutual funds and exchange trade funds held by the Library are open-end mutual funds and exchange trade funds that are registered with the SEC. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds and exchange trade funds held by the Library are deemed to be actively traded.

Interest in net assets of community foundation: Valued at net asset value of the percentage owned of the underlying assets of the fund. The fund is invested in a variety of fixed income and equity mutual funds whereby the investment policies employed are meant to achieve long-term growth while providing modest investment income. There are no unfunded commitments or restrictions.

Beneficial interest in perpetual trusts: Valued at net asset value (NAV) of the percentage owned of the underlying assets of the trusts. The trusts are invested in a variety of fixed income (both domestic and international), equity (both domestic and international) and mutual funds whereby the investment policies employed are meant to achieve long-term growth while providing modest investment income. There are no unfunded commitments related to the trusts and the trust assets are to be maintained in perpetuity such that the Library can never invade the principal.

ADAMS COUNTY LIBRARY SYSTEM, INC.
Notes to Financial Statements

NOTE 9 FAIR VALUE MEASUREMENTS (CONTINUED)

Promises to give: Valued at the initial pledge amount committed by the donor discounted to their present value less any allowance for uncollectible contributions as determined by management based upon management’s analysis of specific promises made and prior collection history.

Corporate stock: The Library received 52 shares of Penn Products Corporate Stock in 2016 that is reported at estimated fair value. This stock is not actively traded.

The following table sets forth by level, within the fair value hierarchy, the Library’s assets at fair value as of December 31, 2018:

Assets at Fair Value as of December 31, 2018				
	Level 1	Level 2	Level 3	Total
Investments				
Cash equivalents and money market funds	\$ 99,039	\$ -	\$ -	\$ 99,039
Mutual funds and exchange traded funds				
Fixed income	963,756	-	-	963,756
Large value	509,120	-	-	509,120
Foreign large growth	80,217	-	-	80,217
Foreign large blend	36,016	-	-	36,016
Foreign small/mid growth	42,487	-	-	42,487
Foreign large value	94,724	-	-	94,724
Large growth	271,451	-	-	271,451
Small/mid cap value	125,320	-	-	125,320
Small/mid cap growth	68,439	-	-	68,439
Small/mid cap blend	46,076	-	-	46,076
Large blend	64,248	-	-	64,248
Small value	150,474	-	-	150,474
Small/mid blend	82,463	-	-	82,463
Small/mid growth	66,546	-	-	66,546
Real estate	33,684	-	-	33,684
Other	107,717	-	-	107,717
Corporate stocks	-	-	2,600	2,600
Perpetual trusts held by third parties	-	2,314,993	-	2,314,993
Interest in net assets of community foundation	-	57,619	-	57,619
Promises to give	-	519,270	-	519,270
Total assets at fair value	\$ 2,841,777	\$ 2,891,882	\$ 2,600	\$ 5,736,259

The Library did not have any liabilities subject to fair value measurements or assets subject to non-recurring fair value measurements at December 31, 2018.

The following table sets forth a summary of changes in the fair value of the Library’s level 3 assets as follows:

	Level 3 Assets, Year Ended December 31, 2018
Beginning balance	\$ 2,600
Contributions	-
Change in value of corporate stock	-
Ending balance	<u>\$ 2,600</u>

ADAMS COUNTY LIBRARY SYSTEM, INC.
Notes to Financial Statements

NOTE 10 DEFERRED REVENUE

The Library had deferred revenue for payments of sponsorships for events that have not occurred as of December 31, 2018. Deferred revenue at December 31, 2018 consists of \$13,775.

NOTE 11 LINES OF CREDIT

The Library maintains a \$200,000 line of credit with PNC Bank. The variable interest rate is calculated at the bank's prime rate plus .5% which was 6% at December 31, 2018 and is due to expire on November 15, 2019 if not renewed annually. The line of credit is secured by the Library's investment accounts held by the PNC Financial Services Group, Inc. There were no borrowings on the credit line as of December 31, 2018.

The Library maintains a \$200,000 line of credit with ACNB Bank. The variable interest rate is calculated at the Wall Street Journal's prime rate less .5% which was 5% at December 31, 2018. Any outstanding balance is payable on demand and due to expire in October 2019 if not renewed annually. The line of credit is secured by the Library's investment accounts held by the trust department of ACNB Bank. Borrowings against the line of credit amounted to \$150,000 as of December 31, 2018. Subsequent to December 31, 2018, in January 2019, the line of credit was paid in full by the Library bringing the balance to \$0 as of the date of the independent auditor's report.

NOTE 12 GUARANTEE OF DEBT

During August 2015, the Library entered into an agreement with the East Berlin Community Library and co-signed a forty year United States Department of Agriculture (USDA) loan for the renovation of the East Berlin Community Library. The \$ 500,000 principal amount was drawn on during the construction process and was interest only at 3.625% through August 2016. In September 2016, monthly principal and interest payments of \$ 2,000 commenced. The loan will mature in August 2055. As of December 31, 2018, the outstanding loan balance owed by the East Berlin Community Library d/b/a Jean Barnett Trone Memorial Library of East Berlin was \$ 485,733.

NOTE 13 PRIOR PERIOD RESTATEMENT

Net assets at the beginning of the year have been adjusted to account for reporting errors that occurred in prior periods. The cumulative effect of the restatement increased net assets by \$0 as of December 31, 2017 as noted below:

	Net Assets		Change in Net Assets
	Without donor restrictions	With donor restrictions	
Beginning Net Assets, as Originally Reported	\$ 6,071,133	\$ 3,638,666	\$ 9,709,799
Prior Period Restatement:			
To adjust value of books to actual due to prior year reporting error:			
Cost adjustment of books	182,900	-	182,900
Accumulated depreciation of books	(182,900)	-	(182,900)
Net Prior Period Restatement	-	-	-
Beginning Net Assets, as Restated	<u>\$ 6,071,133</u>	<u>\$ 3,638,666</u>	<u>\$ 9,709,799</u>

ADAMS COUNTY LIBRARY SYSTEM, INC.
Notes to Financial Statements

NOTE 14 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows as of December 31:

	2018
Subject to the passage of time	
Promises to give - leases (see Note 2)	\$ 470,270
Promises to give - contributions	49,000
	<u>519,270</u>
Subject to expenditure for specified purpose	
Musselman Foundation Endowment (See Note 7)	50,000
Book purchases	8,316
Statue maintenance	500
Teen programing	2,000
Building projects and renovations	45,353
Promotional activity	179
	<u>106,348</u>
Perpetual in Nature	
Donor contribution (A)	10,000
Named endowments (see Note 7)	438,636
Perpetual trusts (see Note 5)	2,314,993
	<u>2,763,629</u>
	<u>\$ 3,389,247</u>

(A) The initial contribution from a donor is to be maintained in perpetuity and is not available for use by the Library, but income derived from the investments is expendable for general support. Donor contributions to be maintained in perpetuity amounts to \$ 10,000 as of December 31, 2018.

NOTE 15 OPERATING LEASES

The Library leases a satellite location in Fairfield, Pennsylvania. In 2013 the library renewed the lease for five years from January 1, 2014 – December 31, 2018. Local municipalities have agreed to reimburse the Library for a portion of the annual lease payments. Annual lease expenses amounted to \$ 11,022 and reimbursements from local municipalities were \$ 11,789 for the year ended December 31, 2018.

During 2017, an agreement was signed with the Borough of Carroll Valley to rent a portion of their Municipal Building to house the Fairfield Library. The move to the new library location occurred in March 2017. Based on the original Fairfield lease agreement and Pennsylvania laws, the Library will be required to pay the remaining lease amounts unless a new tenant can be obtained or a negotiated buyout price can be determined.

The new Carroll Valley lease agreement is for 25 years from March 1, 2017 – February 28, 2042. Local municipalities have agreed to continue to reimburse the Library for a portion of the annual lease payments. Annual lease expenses are expected to approximate \$ 12,000 annually. Including the lease expenses described in Note 2 in addition to the above, total lease expenses were \$ 77,622 in 2018.

ADAMS COUNTY LIBRARY SYSTEM, INC.
Notes to Financial Statements

NOTE 15 OPERATING LEASES (CONTINUED)

Future minimum lease payments under the current property leases are as follows:

2019	\$	12,000
2020		12,000
2021		12,000
2022		12,000
2023		12,000
Thereafter		<u>218,000</u>
	\$	<u>278,000</u>

The Library also has several operating leases for office equipment. Total lease expense for the year ended December 31, 2018 was \$ 15,951. Future minimum lease payments under equipment leases are as follows:

2019	\$	12,722
2020		7,188
2021		<u>613</u>
	\$	<u>20,523</u>

NOTE 16 FUNCTIONAL EXPENSES

The financial statements report expenses that are attributable to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include employee related expenses which are allocated based on the basis of estimated time and effort and occupancy expenses that are allocated on a square-footage basis. All other expenses are directly allocated.

NOTE 17 EMPLOYEE BENEFIT PLANS

The Library sponsors a Simplified Employee Benefit Plan which covers all permanent employees after a specified probationary period. The Library's contributions to the plan on behalf of its employees amounted to \$ 87,797 for the year ended December 31, 2018.

The Library provides medical insurance whereby the Library covers a portion of the employees' medical insurance premiums. The Library's expense under the plan amounted to \$ 161,036 for the year ended December 31, 2018.

NOTE 18 RELATED PARTIES

The Library receives contributions from board members. For the year ended December 31, 2018, contributions received from board members were \$ 74,802.

NOTE 19 SUBSEQUENT EVENTS

The Library has evaluated events and transactions subsequent to December 31, 2018 through July 11, 2019, the date these financial statements were available to be issued. Based on the definitions and requirements of generally accepted accounting principles, management has identified one event, as described in Note 11, that has occurred subsequent to December 31, 2018 that requires recognition or disclosure in the financial statements.