

Audited
Financial
Statements

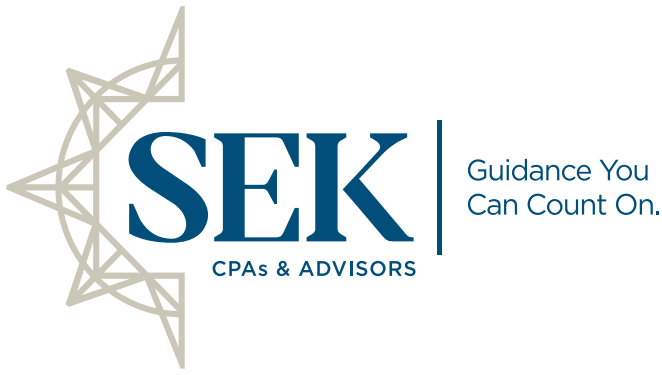
December 31,
2022

ADAMS COUNTY
LIBRARY



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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of the Adams County Library System, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Adams County Library System, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Adams County Library System, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Adams County Library System, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Adams County Library System, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Emphasis of Matter - Effect of Adopting New Accounting Standard

As discussed in Note 1 to the financial statements, for the year ended December 31, 2022, the Organization adopted the new accounting provisions of Accounting Standards Update 2016-02, Topic 842, *Leases*. Our opinion is not modified with respect to this matter.

Amite Elliott Kearns & Company, LLC

Hanover, Pennsylvania
June 16, 2023

ADAMS COUNTY LIBRARY SYSTEM, INC.
Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
ASSETS		
Cash and cash equivalents	\$ 399,275	\$ 356,184
Accounts/fines receivable, net of allowance for doubtful account of \$61,619 and \$91,914, respectively	23,143	31,899
Other receivables	4,499	26,876
Promises to give		
Contributions and bequests	-	600
Leases	379,057	403,496
Prepaid expenses	42,992	56,454
Property and equipment, net of accumulated depreciation	3,688,782	3,832,756
Right-of-use asset - operating lease, net	175,671	-
Long-term investments	4,507,688	4,974,986
Perpetual trusts held by third-parties	2,419,536	2,859,513
Interest in net assets of community foundation	63,554	77,700
TOTAL ASSETS	\$ 11,704,197	\$ 12,620,464
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 17,289	\$ 6,959
Accrued payroll and vacation	84,464	72,663
Accrued expenses	3,351	2,084
Deferred revenue	1,846	15,227
Other liabilities	-	820
Long-term debt	912,710	927,337
Lease liability - operating	175,671	-
Total Liabilities	<u>1,195,331</u>	<u>1,025,090</u>
Net Assets		
Without donor restrictions		
Undesignated	5,911,617	6,583,595
Board designated		
Outreach	98,741	120,200
Board member appreciation fund	1,695	-
New building	20,771	-
Littlestown Library	51,302	59,395
East Berlin Library	11,562	13,258
Total board designated	<u>184,071</u>	<u>192,853</u>
Total without donor restrictions	6,095,688	6,776,448
With donor restrictions		
Time-restriction for future periods	379,057	404,096
Purpose restrictions	854,235	808,082
Perpetual in nature restrictions	3,179,886	3,606,748
Total with donor restrictions	<u>4,413,178</u>	<u>4,818,926</u>
Total Net Assets	<u>10,508,866</u>	<u>11,595,374</u>
TOTAL LIABILITIES AND NET ASSETS	\$ 11,704,197	\$ 12,620,464

ADAMS COUNTY LIBRARY SYSTEM, INC.
Statement of Activities
Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions and gifts	\$ 509,797	\$ 384,640	\$ 894,437
Local government support	1,168,928	-	1,168,928
State government support	692,916	-	692,916
Fees, fines, and miscellaneous income	45,420	-	45,420
Special events	15,171	-	15,171
Rental income	14,946	-	14,946
Interest income	572	-	572
Net investment return	(528,805)	(234,875)	(763,680)
Income from perpetual trusts held by third parties	91,646	-	91,646
Change in value of perpetual trusts held by third parties	-	(439,977)	(439,977)
Change in interest in net assets of			
Community Foundation	(11,139)	-	(11,139)
Net assets released from restrictions	<u>115,536</u>	<u>(115,536)</u>	<u>-</u>
Total Support and Revenue	2,114,988	(405,748)	1,709,240
OPERATING EXPENSES			
Program services	2,299,120	-	2,299,120
Supporting services			
General and administration	383,513	-	383,513
Fundraising	<u>113,115</u>	<u>-</u>	<u>113,115</u>
Total Supporting Services	<u>496,628</u>	<u>-</u>	<u>496,628</u>
Total Operating Expenses	<u>2,795,748</u>	<u>-</u>	<u>2,795,748</u>
Change in net assets	(680,760)	(405,748)	(1,086,508)
NET ASSETS AT BEGINNING OF YEAR	<u>6,776,448</u>	<u>4,818,926</u>	<u>11,595,374</u>
NET ASSETS AT END OF YEAR	<u>\$ 6,095,688</u>	<u>\$ 4,413,178</u>	<u>\$ 10,508,866</u>

ADAMS COUNTY LIBRARY SYSTEM, INC.
Statement of Activities
Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions and gifts	\$ 417,329	\$ 82,632	\$ 499,961
Local government support	1,171,548	-	1,171,548
State government support	646,498	-	646,498
Fees, fines, and miscellaneous income	28,592	-	28,592
Rental income	12,793	-	12,793
Interest income	2,038	-	2,038
Net investment return	377,335	129,011	506,346
Income from perpetual trusts held by third parties	84,130	-	84,130
Change in value of perpetual trusts held by third parties	-	204,284	204,284
Change in interest in net assets of			
Community Foundation	8,813	-	8,813
Net assets released from restrictions	121,585	(121,585)	-
Total Support and Revenue	<u>2,870,661</u>	<u>294,342</u>	<u>3,165,003</u>
OPERATING EXPENSES			
Program services	2,180,637	-	2,180,637
Supporting services			
General and administration	410,822	-	410,822
Fundraising	82,247	-	82,247
Total Supporting Services	<u>493,069</u>	<u>-</u>	<u>493,069</u>
Total Operating Expenses	<u>2,673,706</u>	<u>-</u>	<u>2,673,706</u>
Change in net assets	196,955	294,342	491,297
NET ASSETS AT BEGINNING OF YEAR	<u>6,579,493</u>	<u>4,524,584</u>	<u>11,104,077</u>
NET ASSETS AT END OF YEAR	<u>\$ 6,776,448</u>	<u>\$ 4,818,926</u>	<u>\$ 11,595,374</u>

ADAMS COUNTY LIBRARY SYSTEM, INC.
Statement of Functional Expenses
Year Ended December 31, 2022

	Program Services	Supporting Services		Totals
		General and Administration	Fundraising	
Employee Related Expenses				
Salaries and wages	\$ 1,042,024	\$ 238,707	\$ 58,058	\$ 1,338,789
Employee benefits and payroll taxes	280,308	64,214	15,620	360,142
Travel and conferences	5,314	1,217	296	6,827
Other employee expenses	1,654	379	92	2,125
	<u>1,329,300</u>	<u>304,517</u>	<u>74,066</u>	<u>1,707,883</u>
Expenses Directly Allocated				
Circulation expense	216,818	-	-	216,818
Advertising	5,931	-	1,977	7,908
ACCESS PA Conversion	975	-	-	975
Fundraising expense	-	-	34,059	34,059
Memorials and named endowments program materials	35,441	-	-	35,441
Professional fees	17,674	27,539	98	45,311
Programming	53,375	-	-	53,375
Rental expense - facilities	79,200	-	-	79,200
Vehicle expense	4,825	-	-	4,825
Support contracts	11,144	-	-	11,144
Grant expenses	1,615	-	-	1,615
	<u>426,998</u>	<u>27,539</u>	<u>36,134</u>	<u>490,671</u>
Occupancy Expenses				
Depreciation - building and equipment	130,156	13,094	723	143,973
Interest expense	33,373	-	-	33,373
Equipment and service contracts	52,945	5,326	295	58,566
Dues and meetings	1,608	369	90	2,067
Insurance	20,767	2,089	116	22,972
Miscellaneous expenses	5,930	596	33	6,559
Postage and shipping	3,505	353	20	3,878
Rental expense - parking	5,569	560	31	6,160
Repairs and maintenance	75,158	7,561	418	83,137
Supplies	9,983	1,004	55	11,042
Telephone and internet expenses	155,933	15,687	868	172,488
Utilities	47,895	4,818	266	52,979
	<u>542,822</u>	<u>51,457</u>	<u>2,915</u>	<u>597,194</u>
Total Functional Expenses	<u>\$ 2,299,120</u>	<u>\$ 383,513</u>	<u>\$ 113,115</u>	<u>\$ 2,795,748</u>

ADAMS COUNTY LIBRARY SYSTEM, INC.
Statement of Functional Expenses
Year Ended December 31, 2021

	Program Services	Supporting Services		Totals
		General and Administration	Fundraising	
Employee Related Expenses				
Salaries and wages	\$ 919,241	\$ 246,794	\$ 47,279	\$ 1,213,314
Employee benefits and payroll taxes	266,406	70,752	13,554	350,712
Travel and conferences	398	107	20	525
Other employee expenses	769	207	40	1,016
	<u>1,186,814</u>	<u>317,860</u>	<u>60,893</u>	<u>1,565,567</u>
Expenses Directly Allocated				
Circulation expense	248,273	-	-	248,273
Advertising	5,558	-	1,853	7,411
ACCESS PA Conversion	885	-	-	885
Fundraising expense	-	-	16,323	16,323
Memorials and named endowments program materials	21,668	-	-	21,668
Professional fees	42,053	34,821	234	77,108
Programming	19,688	-	-	19,688
Rental expense - facilities	85,700	-	-	85,700
Rental unit costs	-	6,318	-	6,318
Vehicle expense	5,728	-	-	5,728
Support contracts	11,275	-	-	11,275
Grant expenses	7,270	-	-	7,270
Loss on disposal of property and equipment	352	-	-	352
	<u>448,450</u>	<u>41,139</u>	<u>18,410</u>	<u>507,999</u>
Occupancy Expenses				
Depreciation - building and equipment	137,521	13,835	764	152,120
Interest expense	33,869	-	-	33,869
Equipment and service contracts	68,887	6,931	384	76,202
Dues and meetings	2,164	581	111	2,856
Insurance	15,652	1,575	87	17,314
Miscellaneous expenses	6,530	658	36	7,224
Postage and shipping	4,547	457	25	5,029
Rental expense - parking	6,237	628	35	6,900
Repairs and maintenance	52,982	5,330	295	58,607
Supplies	8,133	818	46	8,997
Telephone and internet expenses	159,268	16,022	886	176,176
Utilities	49,583	4,988	275	54,846
	<u>545,373</u>	<u>51,823</u>	<u>2,944</u>	<u>600,140</u>
Total Functional Expenses	<u>\$ 2,180,637</u>	<u>\$ 410,822</u>	<u>\$ 82,247</u>	<u>\$ 2,673,706</u>

ADAMS COUNTY LIBRARY SYSTEM, INC.
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,086,508)	\$ 491,297
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	143,973	152,120
Loss on disposal of property and equipment	-	352
Net realized and unrealized (gain) loss on investments	869,536	(413,533)
Change in value of perpetual trusts held by third parties	439,977	(204,284)
Amortization of right-of-use asset - operating lease included in rental expense	6,728	-
Change in interest in net assets of Community Foundations	14,146	(6,088)
(Increase) decrease in assets:		
Accounts/fines receivables	8,756	5,561
Promises to give	25,039	349,779
Other receivables	22,377	(26,116)
Prepaid expenses	13,462	(7,646)
Increase (decrease) in liabilities:		
Accounts payable	10,330	(10,877)
Accrued payroll and vacation	11,801	850
Accrued expenses	1,267	(528)
Deferred revenue	(13,381)	(272,244)
Other liabilities	(820)	820
Lease liability - operating	(6,728)	-
Net Cash Provided By Operating Activities	<u>459,955</u>	<u>59,463</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	-	(13,965)
Purchases of investments	(474,130)	(665,331)
Sales of investments	71,893	328,685
Net Cash (Used) By Investing Activities	<u>(402,237)</u>	<u>(350,611)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(14,627)	(14,130)
Net Cash (Used) By Financing Activities	<u>(14,627)</u>	<u>(14,130)</u>
Net Increase (Decrease) In Cash and Cash Equivalents	43,091	(305,278)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>356,184</u>	<u>661,462</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 399,275</u>	<u>\$ 356,184</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid	<u>\$ 33,373</u>	<u>\$ 33,869</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Recognition of right-of-use asset and lease liability - operating lease upon adoption of Accounting Standards Update Topic 842, <i>Leases</i> (Note 1)	<u>\$ 182,399</u>	<u>\$ -</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, Littlestown, and East Berlin Pennsylvania. The Library also operates an outreach department that services the local area.

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.

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.

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.

Cash and Cash Equivalents

For purposes of the Statements 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 charge to bad debt expense. Amounts determined to be uncollectible are charged against the allowance in the year that the determination is made.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 donor 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 promised 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 2022 and 2021 and are not reflected in the statements of activities. In addition, a substantial number of volunteers have donated significant amounts of their time to the Library's activities.

During the years ended December 31, 2022 and 2021, the Library received approximately \$2,000 and \$6,000, respectively, in donated discounts and free tickets to events and restaurants that were handed out to patrons and program participants. This transaction is considered an agency transaction. Therefore, the value of the donated items is not reflected in the accompanying financial statements.

Functional Expense Classification

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

ADAMS COUNTY LIBRARY SYSTEM, INC.
Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Acquisitions of property and equipment in excess of \$1,000 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 statements 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	3
Delivery Van	7

Investments

The Library carries investments at fair value in the statements of financial position. Realized and unrealized gains and losses are recorded along with dividends, interest, and other investment income in the accompanying statements 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. Market risks include global events which could impact the value of investment securities, such as a pandemic or international conflict. 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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Beneficial Interest in Perpetual Trusts (Continued)

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 statements of activities as "change in value of perpetual trusts held by third parties" 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 and further described in 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 \$7,908 and \$7,411 for the years ended December 31, 2022 and 2021, respectively.

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.

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 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Standard

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) Topic 842, *Leases*, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their statement of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, *Leases*) and operating leases, with classification affecting the pattern of expense recognition in the statement of activities. The Library adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Library has applied Topic 842 to reporting periods beginning January 1, 2022, while prior periods to be reported are disclosed in accordance with the Library's historical accounting treatment under ASC Topic 840, *Leases*.

The Library elected the "package of practical expedients" under the transition guidance within Topic 842, in which the Library does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Library has elected not to adopt the "hindsight" practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of Topic 842 on January 1, 2022.

The Library determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Library obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Library also considered whether its service arrangements include the right to control use of an asset.

Right-of-Use (ROU) Assets and Lease Liabilities

The Library made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement of the lease period and are reduced by any lease incentives. To determine the present value of lease payments, the Library made an accounting policy election available to nonpublic companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

ADAMS COUNTY LIBRARY SYSTEM, INC.
Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Right-of-Use (ROU) Assets and Lease Liabilities (Continued)

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index rate or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when probable they will be incurred.

Adoption of Topic 842 resulted in the recording of a ROU asset and lease liability related to the Library's operating leases at January 1, 2022 in the amount of \$182,399.

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 \$99,234 and \$100,826 at December 31, 2022 and 2021, respectively, and is included in the accompanying statements 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 statements 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 \$279,823 and \$302,670 at December 31, 2022 and 2021, respectively, and is included in the accompanying statements 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 statements of activities.

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

2022			
Years	New Oxford	Biglerville	Total
Received in less than one year	\$ 1,724	\$ 23,897	\$ 25,621
Received in one to five years	11,017	136,995	148,012
Received in more than five years	86,493	118,931	205,424
Total	<u>\$ 99,234</u>	<u>\$ 279,823</u>	<u>\$ 379,057</u>

2021			
Years	New Oxford	Biglerville	Total
Received in less than one year	\$ 1,592	\$ 22,848	\$ 24,440
Received in one to five years	10,173	130,978	141,151
Received in more than five years	89,061	148,844	237,905
Total	<u>\$ 100,826</u>	<u>\$ 302,670</u>	<u>\$ 403,496</u>

ADAMS COUNTY LIBRARY SYSTEM, INC.
Notes to Financial Statements

NOTE 2 PROMISES TO GIVE (CONTINUED)

Contributions

The Library received promises to give in 2022 and 2021 totaling \$0 and \$600, respectively. Unconditional promises to give consisted of the following as of December 31:

	<u>2022</u>	<u>2021</u>
Less than one year/total promises to give	<u>\$ -</u>	<u>\$ 600</u>

NOTE 3 PROPERTY AND EQUIPMENT

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

	<u>2022</u>	<u>2021</u>
Land, buildings and improvements	\$ 4,664,536	4,666,806
Furniture, fixtures and computers	1,132,483	1,156,278
Statue	1,230,453	1,230,453
Delivery van	<u>36,589</u>	<u>36,589</u>
	7,064,061	7,090,126
Less accumulated depreciation	<u>(3,375,279)</u>	<u>(3,257,370)</u>
Net property and equipment	<u>\$ 3,688,782</u>	<u>\$ 3,832,756</u>

Depreciation expense amounted to \$143,973 and \$152,120 for 2022 and 2021, respectively.

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.

Included in the above costs is \$219,331 and related accumulated depreciation of \$54,501 and \$49,323 as of December 31, 2022 and 2021, respectively, related to the Library's two rental properties, acquired during the acquisition in 2020 of the East Berlin Community Library d/b/a Jean Barnett Trone Memorial Library of East Berlin. Depreciation expense of \$5,178 and \$5,117 was incurred for the years ended December 31, 2022, and 2021, respectively.

NOTE 4 INVESTMENTS

The Library maintains investment accounts at ACNB Bank, PNC Bank, and Vanguard, 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.

ADAMS COUNTY LIBRARY SYSTEM, INC.
Notes to Financial Statements

NOTE 4 INVESTMENTS (CONTINUED)

Net investment return reported in the statements of activities has been reduced by investment expenses of \$24,174 and \$28,471 for the years ended December 31, 2022 and 2021, respectively.

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 assuming low-to-moderate investment risk. Funds are primarily invested in mutual funds or similar investments.

Investments were comprised of the following at December 31:

	2022		
	Cost	Fair Market Value	Unrealized Gain (Loss)
Cash equivalents	\$ 651,844	\$ 651,844	\$ -
Fixed income mutual funds	1,360,591	1,231,512	(129,079)
Equity mutual funds and exchange traded funds	2,545,429	2,621,732	76,303
Corporate stock	4,680	2,600	(2,080)
	<u>\$ 4,562,544</u>	<u>\$ 4,507,688</u>	<u>\$ (54,856)</u>
	2021		
	Cost	Fair Market Value	Unrealized Gain (Loss)
Cash equivalents	\$ 144,538	\$ 144,538	\$ -
Fixed income mutual funds	1,425,724	1,421,115	(4,609)
Equity mutual funds and exchange traded funds	2,631,375	3,406,733	775,358
Corporate stock	4,680	2,600	(2,080)
	<u>\$ 4,206,317</u>	<u>\$ 4,974,986</u>	<u>\$ 768,669</u>

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.

ADAMS COUNTY LIBRARY SYSTEM, INC.
Notes to Financial Statements

NOTE 5 BENEFICIAL INTEREST IN PERPETUAL TRUSTS (CONTINUED)

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 trusts held by third parties on the statements of activities. The fair value of the Library's beneficial interest in the trust assets was \$2,419,536 and \$2,859,513 at December 31, 2022 and 2021, respectively.

Income from the perpetual trusts for the years ended December 31, 2022 and 2021 was \$91,646 and \$84,130, respectively and is reflected as income from perpetual trusts held by third parties in the statements 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 \$2,871 and \$2,725 for the years ended December 31, 2022 and 2021, respectively. There were no contributions to the fund for the years ended December 31, 2022 and 2021. 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 \$63,554 and \$77,700 as of December 31, 2022 and 2021, respectively.

The Library is also the beneficiary of a donor contributed endowment fund at the Adams County Community Foundation (Foundation). The Foundation maintains variance power over distributions from the fund. As beneficiary, the Library is entitled to annual distributions from the fund, based upon the Foundation's spending policy.

In accordance with generally accepted accounting principles, the designated endowment fund created by contributors to a Foundation is not an asset of the Library and is not reflected in the statements of financial position. As of December 31, 2022, and 2021 the balance of the designated fund amounted to \$26,408 and \$25,972, respectively.

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 \$1,000 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 unless stipulated otherwise by a donor. During 2021 the East Berlin Named Endowment was transferred to the Library's Named Endowment Fund and together they are referred to as the Named Endowment Fund. There are 8 different types of named endowment funds that are defined by their spendable purpose which are educational library programs (including materials), books/collection, program/author visit, operating, building fund, most urgent needs, technology, and scholarship endowment.

The net appreciation from the endowment investments is calculated to determine the spendable portion of each endowment type. 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, 2022 and 2021, funds with original giving values of \$750,350 and \$737,235, fair values of \$759,937 and \$947,689, and surplus of \$9,587 and \$210,454, respectively were reported in net assets with donor restrictions.

The investment policy for the Named Endowment is to generate a reasonable level of income and experience long-term growth assuming low-to-moderate level of investment risk with PNC Bank. Investment policy sets investment ranges at 50% - 80% equities, 20% - 50% 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 generate a reasonable level of income and experience long-term growth assuming low-to-moderate level of investment risk with PNC Bank. Investment policy sets investment ranges at 50% - 80% equities, 20% - 50% 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.

ADAMS COUNTY LIBRARY SYSTEM, INC.
Notes to Financial Statements

NOTE 7 ENDOWMENTS (CONTINUED)

General Endowment (Continued)

The investment policy for the general endowment is to generate a reasonable level of income and experience long-term growth assuming low-to-moderate level of investment risk with ACNB Bank. Investment policy sets investment ranges at 50% - 80% equities, 20% - 50% fixed income and 0% - 10% cash equivalents.

The changes in endowment net assets were as follows for the years ended December 31:

	2022			
	Named Endowment Fund	Musselman Foundation Endowment	General Endowment	
Endowment net assets, beginning of year	\$ 947,689	\$ 141,013	\$ 660,193	
Contributions/Acquisition	13,115	-	-	
Investment income, net of fees	22,700	3,649	12,098	
Realized and unrealized appreciation of investments	(195,583)	(28,505)	(102,145)	
Funding provided for organization use	(27,984)	-	-	
Endowment net assets, end of year	<u>\$ 759,937</u>	<u>\$ 116,157</u>	<u>\$ 570,146</u>	
Investments are restricted as follows:				
Without donor restrictions	\$ -	\$ 66,157	\$ 570,146	
With donor restrictions - purpose restrictions	9,587	50,000	-	
With donor restrictions - perpetual in nature	750,350	-	-	
	<u>\$ 759,937</u>	<u>\$ 116,157</u>	<u>\$ 570,146</u>	
	2021			
	Named Endowment Fund	Musselman Foundation Endowment	General Endowment	East Berlin Named Endowment
Endowment net assets, beginning of year	\$ 601,737	\$ 125,113	\$ 592,547	\$ 248,393
Contributions	14,660	-	-	-
Investment income, net of fees	36,599	5,418	3,539	99
Realized and unrealized appreciation of investments	69,151	10,482	64,107	-
Funding provided for organization use	(22,950)	-	-	-
Net asset reclassification	248,492	-	-	(248,492)
Endowment net assets, end of year	<u>\$ 947,689</u>	<u>\$ 141,013</u>	<u>\$ 660,193</u>	<u>\$ -</u>
Investments are restricted as follows:				
Without donor restrictions	\$ -	\$ 91,013	\$ 660,193	\$ -
With donor restrictions - purpose restrictions	210,454	50,000	-	-
With donor restrictions - perpetual in nature	737,235	-	-	-
	<u>\$ 947,689</u>	<u>\$ 141,013</u>	<u>\$ 660,193</u>	<u>\$ -</u>

ADAMS COUNTY LIBRARY SYSTEM, INC.
Notes to Financial Statements

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:

	2022	2021
Cash and cash equivalents	\$ 292,243	\$ 269,467
Accounts/fines receivable, net (less than one year)	4,629	6,380
Other receivables	4,499	26,876
Long-term investments not restricted by donor or trustee restrictions	<u>2,816,064</u>	<u>3,313,533</u>
	<u>\$ 3,117,435</u>	<u>\$ 3,616,256</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 \$107,032 and \$86,717, respectively, and long-term investments in the amount of \$1,691,624 and \$1,661,453, respectively, have been excluded above, because they have been 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 invests 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 a line of credit with availability of \$300,000 at December 31, 2022 and 2021, which it could draw upon in the event of an unanticipated liquidity need.

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.

ADAMS COUNTY LIBRARY SYSTEM, INC.
Notes to Financial Statements

NOTE 9 FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2022 and 2021.

Money market funds: 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.

Perpetual trusts held by third-parties: 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.

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.

ADAMS COUNTY LIBRARY SYSTEM, INC.
Notes to Financial Statements

NOTE 9 FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables set forth by level, within the fair value hierarchy, the Library's assets at fair value as of December 31:

Assets at Fair Value as of December 31, 2022				
	Level 1	Level 2	Level 3	Total
Investments				
Money market funds	\$ 651,844	\$ -	\$ -	\$ 651,844
Mutual funds and exchange traded funds				
Diversified Emerging Markets	68,452			68,452
Fixed income	1,231,512	-	-	1,231,512
Foreign large growth	147,532	-	-	147,532
Foreign large value	221,344	-	-	221,344
High Yield Bond	208,728	-	-	208,728
Large blend	460,559	-	-	460,559
Large growth	81,146	-	-	81,146
Large value	336,571	-	-	336,571
Mid-Cap Value	96,556	-	-	96,556
Small value	198,404	-	-	198,404
Small/mid cap blend	64,222	-	-	64,222
Small/mid cap growth	62,593	-	-	62,593
Small/mid cap value	196,218	-	-	196,218
Small/mid growth	130,445	-	-	130,445
Other	348,962	-	-	348,962
Corporate stocks	-	-	2,600	2,600
Perpetual trusts held by third parties	-	2,419,536	-	2,419,536
Interest in net assets of community foundation	-	63,554	-	63,554
Promises to give	-	379,057	-	379,057
Total assets at fair value	\$ 4,505,088	\$ 2,862,147	\$ 2,600	\$ 7,369,835
Assets at Fair Value as of December 31, 2021				
	Level 1	Level 2	Level 3	Total
Investments				
Money market funds	\$ 144,538	\$ -	\$ -	\$ 144,538
Mutual funds and exchange traded funds				
Fixed income	1,421,115	-	-	1,421,115
Large value	311,970	-	-	311,970
Foreign large growth	327,015	-	-	327,015
Foreign large blend	155,020	-	-	155,020
Foreign small/mid growth	132,480	-	-	132,480
Foreign small/mid value	49,803	-	-	49,803
Foreign large value	235,514	-	-	235,514
Large growth	201,264	-	-	201,264
Small/mid cap value	253,113	-	-	253,113
Small/mid cap growth	245,706	-	-	245,706
Small/mid cap blend	88,784	-	-	88,784
Large blend	470,368	-	-	470,368
Small value	332,377	-	-	332,377
Small/mid blend	67,294	-	-	67,294
Small/mid growth	222,588	-	-	222,588
Real estate	109,750	-	-	109,750
Other	203,687	-	-	203,687
Corporate stocks	-	-	2,600	2,600
Perpetual trusts held by third parties	-	2,859,513	-	2,859,513
Interest in net assets of community foundation	-	77,700	-	77,700
Promises to give	-	404,096	-	404,096
Total assets at fair value	\$ 4,972,386	\$ 3,341,309	\$ 2,600	\$ 8,316,295

ADAMS COUNTY LIBRARY SYSTEM, INC.
Notes to Financial Statements

NOTE 9 FAIR VALUE MEASUREMENTS (CONTINUED)

The Library did not have any liabilities subject to fair value measurements or assets subject to non-recurring fair value measurements at December 31, 2022 and 2021.

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, 2022	Level 3 Assets, Year Ended December 31, 2021
Beginning balance	\$ 2,600	\$ 2,600
Contributions	-	-
Change in value of corporate stock	-	-
Ending balance	<u>\$ 2,600</u>	<u>\$ 2,600</u>

NOTE 10 DEFERRED REVENUE

The Library's deferred revenue consists of payments for sponsorships for events that have not occurred of \$1,846 and \$15,227, respectively, as of December 31, 2022 and 2021.

NOTE 11 LINE OF CREDIT

The Library maintains a \$300,000 line of credit with ACNB Bank. The variable interest rate is calculated at the Wall Street Journal's prime rate less .5% with a floor of 2.75%. The interest rate was 7.00% at December 31, 2022. Any outstanding balance is payable on demand and due to expire in December of 2023 if not renewed annually. The line of credit is secured by the Library's investment accounts held by the trust department of ACNB Bank and the balance is not to fall below \$400,000. Borrowings against the line of credit amounted to \$0 as of December 31, 2022 and 2021.

ADAMS COUNTY LIBRARY SYSTEM, INC.
Notes to Financial Statements

NOTE 12 LONG-TERM 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. On December 31, 2020, as part of the acquisition of the East Berlin Community Library d/b/a Jean Barnett Trone Memorial Library of East Berlin, the Adams County Library System, Inc. acquired this long-term debt along with loan # 97-02. Long-term debt is as follows at December 31:

	<u>2022</u>	<u>2021</u>
United States Department of Agriculture (USDA) Loan # 97-01		
Term loan; due August 2055; payable in monthly installments of \$2,000 including principal and interest; interest is fixed at 3.625% with a quarterly amortization repayment factor of 4.00% secured by essentially all personal property of the Library.	\$ 458,247	\$ 465,493
United States Department of Agriculture (USDA) Loan # 97-02		
Term loan; due August 2055; payable in monthly installments of \$2,000 including principal and interest; interest is fixed at 3.625% with a quarterly amortization repayment factor of 4.00%, secured by essentially all personal property of the Library.	<u>454,463</u>	<u>461,844</u>
Total Long-Term Debt	<u>\$ 912,710</u>	<u>\$ 927,337</u>

Future maturities of the long-term debt are as follows:

2023	\$ 15,183
2024	15,743
2025	16,323
2026	16,925
2027	17,549
Thereafter	<u>830,987</u>
	<u>\$ 912,710</u>

ADAMS COUNTY LIBRARY SYSTEM, INC.
Notes to Financial Statements

NOTE 13 NET ASSETS WITH DONOR RESTRICTIONS

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

	2022	2021
Subject to the passage of time		
Promises to give - leases (see Note 2)	\$ 379,057	\$ 403,496
Promises to give - contributions	-	600
	<u>379,057</u>	<u>404,096</u>
Subject to expenditure for specified purpose		
Musselman Foundation Endowment (See Note 8)	50,000	50,000
Book purchases	9,507	6,875
Named endowments (see Note 8)	9,587	210,454
Statue maintenance	500	500
Early childhood activity packs	2,550	-
STEM programing	8,000	-
Teen programing and Harbaugh Thomas Library	67,500	67,500
Hearing and visually impaired	238,205	289,236
Building projects and renovations	468,386	183,517
	<u>854,235</u>	<u>808,082</u>
Perpetual in Nature		
Donor contribution (A)	10,000	10,000
Named endowments (see Note 8)	750,350	737,235
Perpetual trusts (see Note 6)	2,419,536	2,859,513
	<u>3,179,886</u>	<u>3,606,748</u>
Total net assets with donor restrictions	<u>\$ 4,413,178</u>	<u>\$ 4,818,926</u>
Cash and cash equivalents	\$ 96,992	\$ 86,717
Promises to give	379,057	404,096
Investments	1,517,593	1,468,600
Perpetual trusts held by third-parties	2,419,536	2,859,513
	<u>\$ 4,413,178</u>	<u>\$ 4,818,926</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, 2022 and 2021.

NOTE 14 RENTAL INCOME

During 2010, the East Berlin Library (acquired by the Library) purchased the building next door to its library in East Berlin. The first and second floors of the property are intended to be rental properties. Rent for the office space is based on an annual rental agreement for the period April to March each year. If payment is made for an entire year, there is a 5% discount. Rent for the apartment is also based on an annual agreement. Rent was set at approximately \$650 per month for each floor during 2022. Rental income for the years ended December 31, 2022 and 2021 totaled \$14,946 and \$12,793, respectively. The expected minimum rental payments to be received for 2023 and 2024 will approximate \$15,771 and \$1,947, respectively.

ADAMS COUNTY LIBRARY SYSTEM, INC.
Notes to Financial Statements

NOTE 15 LEASE AGREEMENTS

In 2017, the Library signed an agreement with the Borough of Carroll Valley to rent a portion of their Municipal Building to house the Fairfield Library. This lease is determined to be an operating lease under the provisions of Topic 842, *Leases*. The 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. Lease expense, including the lease expenses described in Note 2 total \$79,200 and \$85,700 in 2022 and 2021, respectively. Reimbursements from local municipality were \$9,459 and \$10,748 for the years ended December 31, 2022 and 2021, respectively.

The Library used the risk free rate based on the Daily Treasury Par Yield Curve Rate in effect at the commencement date of the operating lease to calculate discounted cash flows (2.94%).

Assuming no changes in current terms, future undiscounted cash flows for each of the next five years and thereafter and a reconciliation of the lease liabilities recognized on the statements of financial position are as follows as of December 31:

2023	\$ 12,000
2024	12,000
2025	12,000
2026	12,000
2027	12,000
Thereafter	<u>170,000</u>
Total Lease Payments	230,000
Less: imputed interest	<u>(54,329)</u>
Present Value of Lease Liabilities	<u>\$ 175,671</u>

NOTE 16 EMPLOYEE BENEFIT PLANS

The Library sponsors a 401(k) Plan which is open to substantially all employees. The Library may make discretionary contributions or profit sharing contributions at its election to any participant meeting the eligibility requirements of age eighteen with more than one year of service. For the year ended December 31, 2022 and 2021 the Library made contributions to the plan totaling \$40,762 and \$38,797, respectively.

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 \$204,737 and \$200,488 for the years ended December 31, 2022 and 2021, respectively.

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NOTE 17 RELATED PARTIES

The Library receives contributions from board members. For the years ended December 31, 2022 and 2021, contributions received from board members were \$323,636 and \$26,221, respectively. The Library also receives contributions from Friends of the Library Organizations that hold events and activities to raise funds to directly support a specified Library.

Such funds raised by Friends of the Library Organizations and contributed to the Library are as follows for December 31:

	2022	2021
Adams County	\$ 56,089	\$ 46,570
New Oxford	3,250	2,000
Littlestown	6,500	5,800
East Berlin	16,000	5,976
	<u>\$ 81,839</u>	<u>\$ 60,346</u>

NOTE 18 SUBSEQUENT EVENTS

The Library has evaluated events and transactions subsequent to December 31, 2022 through June 16, 2023, 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, described below, that has occurred subsequent to December 31, 2022 and through June 16, 2023, that requires recognition or disclosure in the financial statements.

On June 8, 2023, the Library signed a commercial real estate sales agreement with the United Lutheran Seminary to purchase a property located in Adams County, Pennsylvania. The total purchase price of the property is \$850,000 to be paid at a future closing date. The agreement also allows for a leaseback of the property by the Seminary through June 30, 2024. On this date, it is expected the Library will have full rights and possession of the property for future use.