

Library System of Lancaster County

Years Ended December 31, 2020 and 2019

Library System of Lancaster County

Financial Statements with Supplementary Information

Years Ended December 31, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Library System of Lancaster County
Lancaster, Pennsylvania

We have audited the accompanying financial statements of **Library System of Lancaster County** (a nonprofit organization), which comprise the statements of financial position as of December 31, 2020 and 2019, 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 the 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Library System of Lancaster County** as of December 31, 2020 and 2019, and the results of its activities, functional expenses, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The analysis of state and county funding to member libraries on page 19 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Trout CPA

September 15, 2021
Lancaster, Pennsylvania

Library System of Lancaster County

STATEMENTS of FINANCIAL POSITION

December 31, 2020 and 2019

| | 2020 | 2019 |
|------------------------------------|----------------------------|----------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 1,240,173 | \$ 1,445,198 |
| Accounts Receivable | 355,524 | 112,749 |
| Prepaid Expenses | 118,891 | 125,561 |
| Short-Term Investments | <u>1,027,550</u> | <u>50,000</u> |
| Total Current Assets | 2,742,138 | 1,733,508 |
| PROPERTY and EQUIPMENT | | |
| Furniture and Equipment | 469,733 | 476,424 |
| Vehicles | 172,782 | 172,782 |
| Leasehold Improvements | <u>158,768</u> | <u>158,768</u> |
| | 801,283 | 807,974 |
| Less: Accumulated Depreciation | <u>(517,497)</u> | <u>(499,735)</u> |
| Property and Equipment, net | 283,786 | 308,239 |
| OTHER ASSETS | | |
| Security Deposit | <u>4,718</u> | <u>4,718</u> |
| TOTAL ASSETS | <u>\$ 3,030,642</u> | <u>\$ 2,046,465</u> |

See notes to financial statements.

Library System of Lancaster County

STATEMENTS of FINANCIAL POSITION

(Continued)

December 31, 2020 and 2019

| | 2020 | 2019 |
|--|----------------------------|----------------------------|
| LIABILITIES and NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 61,417 | \$ 35,921 |
| Accrued Wages | 66,190 | 41,774 |
| Current Portion of Capital Lease Obligation | 24,081 | 21,625 |
| Current Portion - Loan Payable | 92,395 | -0- |
| Accrued Expenses | 1,657 | 2,412 |
| Deferred Revenue | 742,156 | 53,588 |
| Due to Member Libraries Fundraisers | 2,607 | 2,607 |
| Due to Council of Friends | 50 | 50 |
| | <u>990,553</u> | <u>157,977</u> |
| Total Current Liabilities | 990,553 | 157,977 |
| LONG-TERM LIABILITIES | | |
| Capital Lease Obligation, less Current Portion | 38,250 | 63,108 |
| Loan Payable, less Current Portion | 152,962 | -0- |
| | <u>191,212</u> | <u>63,108</u> |
| Total Long-Term Liabilities | 191,212 | 63,108 |
| TOTAL LIABILITIES | 1,181,765 | 221,085 |
| NET ASSETS | | |
| Without Donor Restrictions | 1,813,539 | 1,775,265 |
| With Donor Restrictions | 35,338 | 50,115 |
| | <u>1,848,877</u> | <u>1,825,380</u> |
| TOTAL NET ASSETS | 1,848,877 | 1,825,380 |
| TOTAL LIABILITIES and NET ASSETS | <u>\$ 3,030,642</u> | <u>\$ 2,046,465</u> |

See notes to financial statements.

Library System of Lancaster County

STATEMENTS of ACTIVITIES

Years Ended December 31, 2020 and 2019

| | Net Assets Without Donor Restrictions | | Net Assets With Donor Restrictions | | Total | |
|--|--|-------------------------|---------------------------------------|-----------------------|-------------------------|-------------------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| SUPPORT and REVENUE | | | | | | |
| State Funding | | | | | | |
| Quality Aid | \$ 672,500 | \$ 615,959 | \$ | \$ | \$ 672,500 | \$ 615,959 |
| Excellence Aid | 766,920 | 702,440 | | | 766,920 | 702,440 |
| County Coordination Aid | 248,541 | 227,645 | | | 248,541 | 227,645 |
| Equal Grant Aid | 35,502 | 32,517 | | | 35,502 | 32,517 |
| District Consultant | <u>32,794</u> | <u>16,155</u> | | | <u>32,794</u> | <u>16,155</u> |
| Total State Funding | 1,756,257 | 1,594,716 | | | 1,756,257 | 1,594,716 |
| County Funding | <u>1,993,740</u> | <u>1,993,740</u> | | | <u>1,993,740</u> | <u>1,993,740</u> |
| Total State and County Funding | 3,749,997 | 3,588,456 | | | 3,749,997 | 3,588,456 |
| Less: Disbursements to Member Libraries | <u>(1,747,827)</u> | <u>(1,528,167)</u> | | | <u>(1,747,827)</u> | <u>(1,528,167)</u> |
| State and County Funding Retained by the System | 2,002,170 | 2,060,289 | | | 2,002,170 | 2,060,289 |
| Grants | 458,480 | 208,628 | | | 458,480 | 208,628 |
| Other Revenue | 78,559 | 85,351 | 8,952 | 304 | 87,511 | 85,655 |
| Net Assets Released from Restrictions | <u>23,729</u> | <u>7,074</u> | <u>(23,729)</u> | <u>(7,074)</u> | <u>-0-</u> | <u>-0-</u> |
| Total Support, Revenue, and Release from Restrictions | \$ 2,562,938 | \$ 2,361,342 | \$ (14,777) | \$ (6,770) | \$ 2,548,161 | \$ 2,354,572 |

See notes to financial statements.

Library System of Lancaster County

STATEMENTS of ACTIVITIES

(Continued)

Years Ended December 31, 2020 and 2019

| | Net Assets Without Donor Restrictions | | Net Assets With Donor Restrictions | | Total | |
|----------------------------------|--|----------------------------|---------------------------------------|-------------------------|----------------------------|----------------------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| FUNCTIONAL EXPENSES | | | | | | |
| Program Services | \$ 2,180,814 | \$ 1,947,383 | \$ | \$ | \$ 2,180,814 | \$ 1,947,383 |
| Management and General | 322,737 | 323,494 | | | 322,737 | 323,494 |
| Fundraising | 21,113 | 27,318 | | | 21,113 | 27,318 |
| | <u>2,524,664</u> | <u>2,298,195</u> | <u>-0-</u> | <u>-0-</u> | <u>2,524,664</u> | <u>2,298,195</u> |
| Total Functional Expenses | | | | | | |
| | <u>2,524,664</u> | <u>2,298,195</u> | <u>-0-</u> | <u>-0-</u> | <u>2,524,664</u> | <u>2,298,195</u> |
| CHANGES in NET ASSETS | 38,274 | 63,147 | (14,777) | (6,770) | 23,497 | 56,377 |
| NET ASSETS | | | | | | |
| Beginning of Year | <u>1,775,265</u> | <u>1,712,118</u> | <u>50,115</u> | <u>56,885</u> | <u>1,825,380</u> | <u>1,769,003</u> |
| End of Year | <u>\$ 1,813,539</u> | <u>\$ 1,775,265</u> | <u>\$ 35,338</u> | <u>\$ 50,115</u> | <u>\$ 1,848,877</u> | <u>\$ 1,825,380</u> |

See notes to financial statements.

Library System of Lancaster County

STATEMENT of FUNCTIONAL EXPENSES
Years Ended December 31, 2020 and 2019

| | Program Services | | Management and General | | Fundraising | | Total | |
|----------------------------|---------------------|------------|---------------------------|------------|-------------|-----------|--------------|--------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Personnel | | | | | | | | |
| Salaries and Wages | \$ 857,407 | \$ 839,271 | \$ 189,351 | \$ 175,556 | \$ 13,772 | \$ 17,837 | \$ 1,060,530 | \$ 1,032,664 |
| Employee Benefits | 213,741 | 198,760 | 47,030 | 55,861 | 3,435 | 5,196 | 264,206 | 259,817 |
| Collection Expenses | | | | | | | | |
| Books | 147,190 | 23,013 | | | | | 147,190 | 23,013 |
| Subscriptions | 881 | 1,412 | | | | | 881 | 1,412 |
| Overdrive Subscription | 8,000 | 8,000 | | | | | 8,000 | 8,000 |
| Audio Visual | 1,243 | 1,920 | | | | | 1,243 | 1,920 |
| Computer Service Fees | 61,554 | 54,937 | | | | | 61,554 | 54,937 |
| Internet Access Fees | 236,095 | 222,100 | | | | | 236,095 | 222,100 |
| Collection Processing | 79,154 | 85,040 | | | | | 79,154 | 85,040 |
| Operating Overhead | | | | | | | | |
| Property and Vehicles | 38,730 | 30,247 | 8,152 | 7,788 | 587 | 709 | 47,469 | 38,744 |
| Rent | 73,755 | 67,650 | 16,272 | 18,952 | 1,161 | 1,717 | 91,188 | 88,319 |
| Postage and Shipping | 4,027 | 4,719 | 260 | 254 | 43 | 102 | 4,330 | 5,075 |
| Supplies | 18,334 | 4,439 | 4,034 | 1,248 | 295 | 116 | 22,663 | 5,803 |
| Accounting Services | | | 26,559 | 26,361 | | | 26,559 | 26,361 |
| Legal Services | | | | 338 | | | -0- | 338 |
| Other Contracted Services | 12,157 | 12,276 | 4,250 | 2,178 | 3 | 7 | 16,410 | 14,461 |
| Miscellaneous Operating | \$ 103 | \$ 850 | \$ 6 | \$ 3,438 | \$ | \$ | \$ 109 | \$ 4,288 |

See notes to financial statements.

Library System of Lancaster County

STATEMENTS of FUNCTIONAL EXPENSES

(Continued)

Years Ended December 31, 2020 and 2019

| | Program Services | | Management and General | | Fundraising | | Total | |
|----------------------------------|----------------------------|----------------------------|---------------------------|--------------------------|-------------------------|-------------------------|----------------------------|----------------------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Program and Services | | | | | | | | |
| Computer Expenses | \$ 281,330 | \$ 197,532 | \$ 9,392 | \$ 4,733 | \$ 1,772 | \$ 930 | \$ 292,494 | \$ 203,195 |
| Bookmobile | 7,958 | 22,490 | | | | | 7,958 | 22,490 |
| Be Ready Rover | 11,825 | 14,181 | | | | | 11,825 | 14,181 |
| Supplies | 24,152 | 29,724 | | | | | 24,152 | 29,724 |
| Telephone | 10,030 | 10,026 | | | | | 10,030 | 10,026 |
| Public Relations | 2,391 | 2,706 | 91 | 305 | 7 | 28 | 2,489 | 3,039 |
| Library Programs | 18,146 | 42,797 | | | | 648 | 18,146 | 43,445 |
| Travel and Conferences | 5,285 | 10,707 | 1,098 | 2,149 | | | 6,383 | 12,856 |
| Dues, Memberships, and Events | 5,026 | 3,544 | 1,257 | 886 | | | 6,283 | 4,430 |
| Training and Development | 6,044 | 3,841 | 576 | 972 | 38 | 28 | 6,658 | 4,841 |
| Miscellaneous | | | 345 | 8,675 | | | 345 | 8,675 |
| Depreciation Expense | 56,256 | 55,201 | 14,064 | 13,800 | | | 70,320 | 69,001 |
| | | | | | | | | |
| TOTAL FUNCTIONAL EXPENSES | <u>\$ 2,180,814</u> | <u>\$ 1,947,383</u> | <u>\$ 322,737</u> | <u>\$ 323,494</u> | <u>\$ 21,113</u> | <u>\$ 27,318</u> | <u>\$ 2,524,664</u> | <u>\$ 2,298,195</u> |

See notes to financial statements.

Library System of Lancaster County

STATEMENTS of CASH FLOW

Years Ended December 31, 2020 and 2019

| | 2020 | 2019 |
|--|---------------------|---------------------|
| CASH FLOWS from OPERATING ACTIVITIES | | |
| Changes in Net Assets | \$ 23,497 | \$ 56,377 |
| Adjustments to Reconcile Changes in Net Assets to Net Cash Provided (Used) by Operating Activities: | | |
| Realized and Unrealized Gain on Investments | (27,550) | -0- |
| Depreciation | 70,320 | 69,001 |
| (Increase) Decrease in: | | |
| Accounts Receivable | (242,775) | 16,595 |
| Prepaid Expenses | 6,670 | 24,266 |
| Increase (Decrease) in: | | |
| Accounts Payable | 25,496 | (18,057) |
| Accrued Wages | 24,416 | 30,511 |
| Accrued Expenses | (755) | (4,276) |
| Deferred Revenue | 688,568 | 21,129 |
| Due to Member Libraries Fundraisers | -0- | (3,000) |
| Due to Council of Friends | -0- | (3,514) |
| | 567,887 | 189,032 |
| CASH FLOWS from INVESTING ACTIVITIES | | |
| Purchase of Investments | (1,167,830) | -0- |
| Sale of Investments | 217,830 | 160,000 |
| Purchase of Property and Equipment | (45,867) | (63,298) |
| | (995,867) | 96,702 |
| CASH FLOWS from FINANCING ACTIVITIES | | |
| Proceeds from PPP Loan | 245,357 | -0- |
| Payments on Capital Lease | (22,402) | (13,995) |
| | 222,955 | (13,995) |
| INCREASE (DECREASE) in CASH and CASH EQUIVALENTS | (205,025) | 271,739 |
| CASH and CASH EQUIVALENTS | | |
| Beginning | 1,445,198 | 1,173,459 |
| Ending | \$ 1,240,173 | \$ 1,445,198 |
| SUPPLEMENTAL DISCLOSURE of CASH FLOW INFORMATION | | |
| Assets Acquired/Capitalized and Financed by Capital Leases | -0- | 32,318 |
| Cash Paid for Interest | 4,727 | 6,673 |

See notes to financial statements.

Library System of Lancaster County

NOTES to FINANCIAL STATEMENTS

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES

Organization

The **Library System of Lancaster County** (the Organization) was incorporated in Pennsylvania in 1987. The Organization was established to directly receive and distribute funds and to provide services to all local public libraries in Lancaster County. In addition, the Organization is responsible for planning and overseeing long-range programs and the development of public library services in Lancaster County.

Basis of Accounting

The Organization's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). Current US GAAP standards are contained in the Accounting Standards Codification (ASC) as set forth by the Financial Accounting Standards Board (FASB).

Basis of Presentation

The financial statements of the Organization have been presented in accordance with FASB Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which requires the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors.

Net Assets With Donor Restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions may be temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions may be perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Contributions and Donated Materials and Services

Support that is restricted by the donor is reported as an increase in net assets - without donor restriction if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets - with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets - with donor restrictions are reclassified to net assets - without donor restriction and reported in the financial statements.

Contributed property and equipment are recorded at fair value at the date of donation.

No amounts have been reflected in the financial statements for contributed services because they do not meet the criteria established by the FASB ASC topic relating to Donated Services. However, board and committee members and volunteers have donated significant amounts of their time to the Organization.

Grants and State and County Funding

The Organization accounts for grant and government funding as conditional contributions in the statements of activities. Revenue is recognized when expenses have been incurred for the purpose specified by the grantor or funding resource during the period. All funds not expended in accordance with the grants are recorded as deferred revenue until such barriers are met.

Library System of Lancaster County

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. The Organization estimates relate primarily to depreciation, which is based on estimated useful lives, and the functional allocation of expenses for the statements of functional expenses.

Functional Expenses

The costs of providing the Organization programs and supporting services has been summarized on a functional basis in the statements of activities. Certain expenses are charged directly to program or supporting services based on specific identification. Indirect expenses have been allocated by management based on reasonable allocation methods. Such allocations are determined by management on an equitable basis according to the following methods of allocation:

| Expense | Method of Allocation |
|-----------------------|----------------------|
| Personnel | Time and Effort |
| Operating Overhead | Full Time Equivalent |
| Programs and Services | Direct Allocation |
| Local Grant Expenses | Direct Allocation |
| Depreciation | Direct Allocation |

Inexhaustible Collections and Books

Because the values of the existing inexhaustible collections, including research books, are not readily determinable, the Organization has not capitalized them and does not sell these items. Books used in the circulating libraries have not been capitalized because their estimated useful lives are unable to be reasonably estimated.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly-liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents, with the exception of certificates of deposit.

Investments

Investments are carried at fair value in the statements of financial position in accordance with FASB ASC Topic 958, *Not-For-Profit Entities*. Gains and losses on investments are required to be reported in the statements of activities as increases or decreases in net assets without donor restrictions unless restrictions are stipulated by the donor or by law. Contributed investments are recorded as a contribution at the fair value on the date received.

Fair Value Measurement

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

Library System of Lancaster County

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

It is the Organization's policy to record an allowance for doubtful accounts based on management's assessment of the collectability of specific balances and the aging of accounts receivable. Management has determined that no valuation allowance for uncollectible accounts is required as of December 31, 2020 and 2019.

Property and Equipment

Property and equipment are stated at cost. Donations of property and equipment are recorded as contributions at fair value at the date of gift. Assets that cost \$2,500 or more and have a useful life greater than one year are capitalized. The cost of books is expensed when purchased. Depreciation is provided on the straight-line method over the following estimated useful lives:

| | |
|-------------------------|---------------|
| Furniture and Equipment | 5 - 10 Years |
| Vehicles | 5 Years |
| Leasehold Improvements | 10 - 40 Years |

Routine repair and maintenance costs are expensed as incurred.

Advertising

The Organization follows the policy of charging the cost of advertising to expense as incurred.

Compensated Absences

The Organization maintains a leave time policy in which employees can accrue earned leave time. Employees may carry over a maximum of half their annual eligibility of unused vacation time to the next year. The maximum amount that could be carried over by any employee is 12.5 days. Employees will be compensated for their balance of accrued vacation time upon voluntary termination or retirement. Employees may also carry over a maximum 975 hours of earned sick leave and are eligible, upon retirement, to receive payment of half their sick leave balance, up to 20 days.

It is the Organization's policy to record an accrued liability for material compensated absences. The recorded liability for compensated absences was \$57,168 and \$27,249 as of December 31, 2020 and 2019.

Tax Status and Uncertain Tax Positions

The Organization is exempt from taxation as provided by Code Section 501(c)(3) of the Internal Revenue Code (the Code). Section 501(c)(3) defines the exempt organization as being "organized and operated for religious, charitable, scientific, testing for public safety, literacy or educational purposes, or the prevention of cruelty to children or animals." In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation, within the meaning of Section 509(a) of the Code.

The Organization is not aware of any unrelated business income that would be subject to taxation. Accordingly, the Internal Revenue Service Form 990-T will not be filed. The Organization follows the provisions of ASC Topic 740, *Income Taxes*, and is not aware of any uncertain tax positions, and accordingly, no corresponding liability, including penalties and interest, has been recorded in the accompanying financial statements.

Library System of Lancaster County

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

If the Organization enters into an exchange transaction, the Organization recognizes revenue when it satisfies a performance obligation by transferring control over a product or services to a customer. Management has determined that the Organization does not participate in material transactions that would qualify as an exchange transaction.

Accounting Standards Recently Adopted

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, as amended. The standard's core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing the user of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Management has analyzed the provision of the FASB's ASC Topic 606, and has concluded that no changes to the Organization's preexisting policies of revenue recognition are necessary to conform with the new standard. Therefore, a restatement of net assets is not necessary to apply the standard retrospectively.

Accounting Standards Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The main difference between currently effective GAAP and ASU 2016-02 is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases. This update is effective for the year ending December 31, 2022. The Organization is currently assessing the impact the adoption of ASU 2016-02 will have on its financial statements.

NOTE 2 - CONCENTRATIONS of CREDIT RISK

Financial instruments that potentially subject the Organization to concentration of credit risk consist principally of cash deposits and certificates of deposit. The Organization maintains substantially all of its cash balances with several financial institutions where the cash account balances may at times exceed FDIC limits.

The revenue from the County of Lancaster totaled \$1,993,740 for each of the years ended December 31, 2020 and 2019, which accounted for 46% and 51% of total revenue for the years ended December 31, 2020 and 2019, respectively. The revenue from the Commonwealth of Pennsylvania totaled \$1,756,257 and \$1,594,716 or 41% of total revenue for each of the years ended December 31, 2020 and 2019, respectively.

A major vendor is a vendor whose goods and services represent 10% or more of the Organization's total purchases for the year. There was one vendor who met the major vendor criteria. Purchases from this vendor were \$427,084 and \$415,050 for the years ended December 31, 2020 and 2019.

Library System of Lancaster County

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 3 - FAIR VALUE of INVESTMENTS

FASB ASC Topic 820, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework 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 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC Topic 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- 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 into the valuation methodology are unobservable and significant to the fair value measurement.

Investment income is included in the statements of activities and changes in net assets and includes unrealized gains and losses and interest income on other interest-bearing accounts.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. 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, 2020 and 2019.

Cash and Cash Equivalents: The carrying amount approximates fair value because of the short-term nature of these investments.

Exchange-Traded and Mutual Funds: Fair value of exchange-traded and mutual funds was based on quoted market prices for the identical securities.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets that are measured at fair value on a recurring basis as of December 31, 2020:

| | Total | Level 1 | Level 2 | Level 3 |
|------------------------------------|------------------|------------------|----------------|----------------|
| Cash and Cash Alternatives | 23,333 | 23,333 | -0- | -0- |
| Exchange-Traded Fixed Income Funds | 601,150 | 601,150 | -0- | -0- |
| Mutual Funds | <u>403,067</u> | <u>403,067</u> | <u>-0-</u> | <u>-0-</u> |
| | 1,027,550 | 1,027,550 | -0- | -0- |

Library System of Lancaster County

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 3 - FAIR VALUE of INVESTMENTS (Continued)

Short-term investments at December 31, 2019, consist of the following Certificates of Deposit with original maturities twelve months or less:

| | Maturity Date | Original Term | Interest Rate | Balance December 31, 2019 |
|----------------------|------------------|------------------|------------------|---------------------------------|
| Union Community Bank | 1/20/2020 | 13 mos. | 2.42% | 50,000 |

NOTE 4 - OPERATING LEASE

The Organization entered into a 5-year property lease from December 1, 2016 through November 30, 2021. The property lease is for facilities from which the Organization conducts its central operations. Rent payments are fixed at \$5,207 base per month for the first year. In the second through the fifth year the minimum fixed annual rent will increase per the schedule in the lease agreement. Additional rents for common area maintenance and HVAC maintenance are assessed at the beginning of the calendar year based on budgeted amounts and reconciled annually with actual expenditures by the landlord. For the years ended December 31, 2020 and 2019, rent payments totaled \$91,188 and \$88,319, respectively.

Future minimum lease payments are as follows:

| | |
|------|--------|
| 2021 | 60,786 |
|------|--------|

NOTE 5 - CAPITAL LEASES

The Company has capital lease obligations under leases for vehicles. Capital lease obligations as of December 31, 2020 and 2019, consisted of the following:

| | 2020 | 2019 |
|--|---------------|---------------|
| Capital lease payable to a financing company, due in monthly payments of \$1,786 through November 2021, collateralized by a vehicle with a net book value of \$70,232 at December 31, 2020. The lease includes interest at 11.58%. | 36,477 | 52,415 |
| Capital lease payable to a financing company, due in monthly payments of \$539 through December 2024, collateralized by a vehicle with a net book value of \$25,854 at December 31, 2020. The lease is non-interest bearing. | <u>25,854</u> | <u>32,318</u> |
| | 62,331 | 84,733 |
| Current Maturities | 24,081 | 21,625 |
| Long-Term Portion | 38,250 | 63,108 |

Library System of Lancaster County

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 5 - CAPITAL LEASES (Continued)

Aggregate maturities on capital lease obligations debt are:

| | |
|-------------------|---------------|
| December 31, 2021 | 24,081 |
| 2022 | 24,783 |
| 2023 | 6,464 |
| 2024 | 6,464 |
| 2025 | <u>539</u> |
| | 62,331 |

The carrying value of the vehicles under capital lease obligations was as follows as of December 31, 2020 and 2019:

| | 2020 | 2019 |
|--------------------------|-----------------|-----------------|
| Vehicles, at Cost | 172,782 | 172,782 |
| Accumulated Depreciation | <u>(76,696)</u> | <u>(42,139)</u> |
| | 96,086 | 130,643 |

Future minimum payments under capital leases at December 31, 2020, are as follows:

| | |
|-------------------------------|----------------|
| 2021 | 27,900 |
| 2022 | 27,283 |
| 2023 | 6,464 |
| 2024 | 6,464 |
| 2025 | <u>539</u> |
| | 68,650 |
| Amounts Representing Interest | <u>(6,319)</u> |
| | 62,331 |

All interest expensed was charged to operations and included in Bookmobile expenses on the Statement of Functional Expenses.

NOTE 6 - LONG-TERM DEBT

In May 2020, the Organization applied for and was granted a loan through the Small-Business Administration's Paycheck Protection Program. Under the terms of the program, the Organization was eligible for a loan of \$245,357 and received funds in June 2020. The loan provides for interest at 1.00% and is payable in equal installments beginning in December 2020 through May 2022. Under the terms of the Small-Business Administration's Paycheck Protection Program, all or a portion of the loan may be forgiven based upon spending over the 24-week period following the loan funded date.

Aggregate maturities required on the loan at December 31, 2020, are as follows:

| | |
|------|----------------|
| 2021 | 92,395 |
| 2022 | <u>152,962</u> |
| | 245,357 |

Library System of Lancaster County

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 7 - RETIREMENT

The Organization offers a salary reduction tax deferred annuity under Internal Revenue Code section 403(b). All employees are required, as a condition of employment, to participate after completion of a 90-day introductory period. Under this plan, pre-tax contributions are made for 5% of the employee's gross wages or the maximum allowable under current IRS regulations, whichever is less. Additionally, the Organization contributes 5% of the employees' gross wages up to the maximum allowed by law. Contributions made for the years ended December 31, 2020 and 2019, were \$46,094 and \$38,484, respectively.

NOTE 8 - CONTINGENCIES

The Organization may participate in various grant and contractual programs. These programs are subject to program compliance audits by the grantors and contractors, or their representatives. Accordingly, the Organization is potentially liable for any expenditure which may be disallowed pursuant to the terms of these programs. The Organization's management is not aware of any material items of noncompliance, which would result in the disallowance of program expenditures.

NOTE 9 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions include funds restricted by donors at December 31, 2020 and 2019, for various purposes as follows:

| | 2020 | 2019 |
|----------------|---------------|---------------|
| Bookmobile | 34,448 | 49,811 |
| Be Ready Rover | <u>890</u> | <u>304</u> |
| | 35,338 | 50,115 |

NOTE 10 - AVAILABILITY and LIQUIDITY

The following represents the Organization's financial assets at December 31, 2020 and 2019:

| | 2020 | 2019 |
|---|------------------|------------------|
| Financial Assets: | | |
| Cash and Cash Equivalents | 1,240,173 | 1,445,198 |
| Accounts Receivable | 355,524 | 112,749 |
| Short-Term Investments | <u>1,027,550</u> | <u>50,000</u> |
| Total Financial Assets | 2,623,247 | 1,607,947 |
| Less Amounts Unavailable for General Expenditures, Due to: | | |
| Net Assets with Donor Restrictions | 35,338 | 50,115 |
| Board Designated Funds for Bookmobile Lease Payments | <u>-0-</u> | <u>32,318</u> |
| Financial Assets Available to Meet Cash Needs For General Expenditures Within One Year | 2,587,909 | 1,525,514 |

Library System of Lancaster County

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 10 - AVAILABILITY and LIQUIDITY (Continued)

The Organization has a goal to maintain financial assets, which consist of cash and investments, on hand to meet at least 90 days of normal operating expenses, which are, on average, approximately \$575,000. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

In addition, as part of its liquidity management, The Organization invests cash in excess of daily requirements in various investments. Funds held in these investment vehicles are readily available to cover operating expenses on an as needed basis.

NOTE 11 - SUBSEQUENT EVENTS

In April 2021, the Organization applied for and received forgiveness on the outstanding balance of the Paycheck Protection Loan, plus accrued interest. The principal balance on the loan at the date of forgiveness was \$245,357. In addition, accrued interest forgiven at the date of forgiveness was \$2,238.

Subsequent events have been evaluated through September 15, 2021, which represents the date the financial statements were available to be issued.

Library System of Lancaster County

ANALYSIS of STATE and COUNTY FUNDING to MEMBER LIBRARIES

Year Ended December 31, 2020

| | State Aid | County Aid | Grand Total |
|-----------------------------------|---------------------|---------------------|---------------------|
| Funding | \$ 1,756,257 | \$ 1,993,740 | \$ 3,749,997 |
| Disbursements | | | |
| Adamstown Area Library | 64,804 | 14,262 | 79,066 |
| Columbia Public Library | 43,840 | 8,862 | 52,702 |
| ELANCO Library | 59,225 | 12,784 | 72,009 |
| Elizabethtown Library | 88,883 | 14,252 | 103,135 |
| Ephrata Library | 182,271 | 14,946 | 197,217 |
| Lancaster Public Library | 394,261 | 65,918 | 460,179 |
| Lititz Public Library | 109,653 | 14,424 | 124,077 |
| Manheim Community Library | 44,948 | 11,144 | 56,092 |
| Manheim Township Library | 141,812 | 66,336 | 208,148 |
| Milanof-Schock Library | 66,821 | 12,916 | 79,737 |
| Moore's Memorial Library | 53,014 | 7,288 | 60,302 |
| Mountville Public Library | -0- | 4,000 | 4,000 |
| Pequea Valley Public Library | 95,035 | 13,888 | 108,923 |
| Quarryville Library | 62,209 | 16,036 | 78,245 |
| Salisbury Township Public Library | -0- | 4,000 | 4,000 |
| Strasburg Heisler Library | 52,051 | 7,944 | 59,995 |
| Total Disbursements | 1,458,827 | 289,000 | 1,747,827 |
| Funding Retained by System | \$ 297,430 | \$ 1,704,740 | \$ 2,002,170 |

See independent auditors' report.