

Newport Public Library

Financial Statements

For the Year Ended December 31, 2019

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Trustees
Newport Public Library
Newport, Pennsylvania

We have reviewed the accompanying financial statements of Newport Public Library (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

ACCOUNTANT'S CONCLUSION

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads 'Smith & Elliott Deams & Company, LLC'. The signature is written in a cursive, flowing style.

Chambersburg, Pennsylvania
September 1, 2020

Newport Public Library
Statement of Financial Position
As of December 31, 2019

Assets

Current Assets:

Cash and cash equivalents	\$ 61,925
Investments, at fair value	1,354,169
Total current assets	<u>1,416,094</u>

Fixed Assets:

Land	18,217
Building and improvements	333,714
Equipment	13,350
Accumulated depreciation	<u>(232,166)</u>
Total net fixed assets	<u>133,115</u>

Total assets	<u>\$ 1,549,209</u>
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Liabilities and Net Assets

Current Liabilities:

Accrued payroll and related taxes	\$ 5,894
Total current liabilities	<u>5,894</u>

Long Term Liabilities

Compensated absences	<u>15,546</u>
Total long term liabilities	<u>15,546</u>

Total liabilities	<u>21,440</u>
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Net Assets:

Without donor restrictions	<u>1,527,769</u>
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Total liabilities and net assets	<u>\$ 1,549,209</u>
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The Accompanying Notes are an Integral Part of these Financial Statements.

See Independent Accountant's Review Report.

Newport Public Library
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2019

Without Donor Restrictions

Support and revenue received		
State revenue	\$	27,528
Local government revenue		2,610
Foundation contributions		6,193
Fundraising and individual donations		42,823
Library generated revenue		13,419
Total unrestricted support and revenue		92,573
Operating expenses		
Salaries and wages		71,324
Payroll taxes and benefits		7,409
Collection expenses		32,044
Equipment expenses		2,549
Building related expenses		19,424
Office expenses		5,702
Professional services		8,262
Fundraising expenses		4,334
Other operating expenses		3,541
Depreciation		10,229
Total operating expenses		164,818
Operating loss		(72,245)
Non-operating income and (expense)		
Investment income, net		32,932
Realized investment gains		31,101
Unrealized investment gains		170,253
Total non-operating income		234,286
Change in net assets		162,041
Net assets at beginning of year		1,365,728
Net assets at end of year	\$	1,527,769

The Accompanying Notes are an Integral Part of these Financial Statements.

See Independent Accountant's Review Report.

Newport Public Library
Statement of Functional Expenses
For the Year Ended December 31, 2019

	Program	Management & General	Fundraising	Supporting Activities Total	Total Expenses
Salaries and wages	\$ 66,798	\$ 3,621	\$ 905	\$ 4,526	\$ 71,324
Payroll taxes and benefits	7,027	306	76	382	7,409
Collection expenses	32,044	-	-	-	32,044
Equipment expenses	2,549	-	-	-	2,549
Building related expenses	19,424	-	-	-	19,424
Office expenses	2,015	3,687	-	3,687	5,702
Professional services	-	8,262	-	8,262	8,262
Fundraising expenses	-	-	4,334	4,334	4,334
Other operating expenses	3,541	-	-	-	3,541
Depreciation	10,229	-	-	-	10,229
	<u>\$ 143,627</u>	<u>\$ 15,876</u>	<u>\$ 5,315</u>	<u>\$ 21,191</u>	<u>\$ 164,818</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

See Independent Accountant's Review Report.

Newport Public Library
Statement of Cash Flows
For the Year Ended December 31, 2019

Cash flows from operating activities

Change in net assets	\$	162,041
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation		10,229
Net unrealized gain on investments		(170,253)
Net realized gain on investments		(31,101)
Decrease in accounts payable and accrued expenses		(1,842)
Increase in accrued compensated absences		1,701
Net cash used by operating activities		(29,225)

Cash flows from investing activities

Purchase of fixed assets		(21,993)
Sale of investments		193,062
Purchase of investments		(129,393)
Net cash provided by investing activities		41,676
Net increase in cash and cash equivalents		12,451
Cash and cash equivalents at beginning of year		49,474
Cash and cash equivalents at end of year	\$	61,925

Supplemental disclosure of cash flow information:

Interest paid during the year was \$0.

The Accompanying Notes are an Integral Part of these Financial Statements.

See Independent Accountant's Review Report.

Newport Public Library
Notes to Financial Statements
December 31, 2019

Note 1 - Nature of Organization and Significant Accounting Policies

Newport Public Library, “the Library”, is a nonprofit organization serving as a local public library for the residents of Newport, Pennsylvania and surrounding areas. The Library provides the community with a variety of general interest books and publications for all ages. Revenues are derived principally from state-funded grants, the Library’s programs, and from contributions.

Basis of Accounting - Newport Public Library maintains its records according to the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

Change in Accounting Policy - In June 2018, the FASB issued ASC Update No. 2018-08, (Topic 958) Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This ASU provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The ASU also provides additional guidance to help determine whether a contribution is conditional or unconditional. This standard was adopted by the Library effective January 1, 2019. This ASU provides organizations with the option of applying the clarified guidance in the initial year of implementation on a prospective basis; therefore, the Library has not restated its 2018 revenue balances or opening net assets for the years presented.

Net Assets – Net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. The classifications are therein as follows:

Net assets without donor restrictions: Net assets that do not have any donor-imposed restrictions, and may be used by the Library for any purpose in performing the operations of the organization. The board may choose to designate portions of net assets for specific purposes.

Net assets with donor restrictions: Net assets that contain donor-imposed restrictions that permit the Library to use or expend the donated assets either by the passage of time or by the action of the Library. Some donations are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

At December 31, 2019, all net assets are without donor restrictions.

See Independent Accountant’s Review Report

Newport Public Library
Notes to Financial Statements
December 31, 2019

Note 1 - Nature of Organization and Significant Accounting Policies (continued)

Support and Expenses - Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Library reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as without donor restrictions.

Donations of Goods and Services - Materials and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair values at the date of receipt to the extent they create or enhance non-financial assets or require specialized skills which, if not provided by donation, would have to be purchased by the Library. A substantial number of volunteers have made significant contributions of their time to the Library's program and supporting services. The value of this contributed time is not reflected in the financial statements since it does not meet the above criteria.

Cash and Cash Equivalents – For purposes of the statement of cash flows, cash and cash equivalents consist of highly liquid investments with an original maturity of three months or less.

Fixed Assets - All fixed assets with a value greater than \$5,000 and having a useful life of one year or longer are capitalized and depreciated. Property and equipment are stated at estimated historical cost. Maintenance and repairs are charged to expenses as incurred.

Market Risk - Unlike cash and cash equivalents on deposit with banks and similar financial institutions, investments which are held in marketable debt and equity securities are not federally insured and carry a certain amount of market risk which could be material to these financial statements.

The Library's investment securities are exposed to various risks, such as interest rate, market, currency and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could be material.

In addition, recent economic uncertainty and market events as a result of the COVID-19 pandemic and other market forces have led to unprecedented volatility in currency, commodity, credit and equity markets. These recent events underscore the level of investment risk associated with the current economic environment, and accordingly the level of risk in the investments.

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Newport Public Library
Notes to Financial Statements
December 31, 2019

Note 1 - Nature of Organization and Significant Accounting Policies (continued)

Income Taxes - The Library is a nonprofit organization which is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, there is no provision for income taxes in the financial statements. The Library files a Form 990, "Return of Organization Exempt from Income Tax". The Form 990 is generally subject to examination by the relevant taxing authorities for a period of three years after the returns are filed.

Management evaluated the Library's tax positions and concluded that the Library had taken no uncertain tax positions which require adjustment to the financial statements.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates based on management's knowledge and experience. Due to their prospective nature, actual results could differ from those estimates.

Subsequent Events - In preparing these financial statements, the Library has evaluated events and transactions for potential recognition or disclosure through September 1, 2020, the date the financial statements were available to be issued. See Note 8.

Functional Expenses - The methodology used to allocate program and support function expenses is based on the percentage of time dedicated to activities by Library employees, and based on direct impact of expenses on activities.

Note 2 - Concentrations of Credit Risk

The Library maintains its cash and cash equivalents balances in banks and a brokerage house. Cash and cash equivalents held at banks are 100% FDIC insured. Those held at the brokerage house are not insured. Management believes that the Library is not exposed to any significant credit risk.

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Newport Public Library
Notes to Financial Statements
December 31, 2019

Note 3 – Liquidity Risk

Financial assets available for general expenditures within one year of the statement of financial position date are as follows:

Financial assets at year end	
Cash and cash equivalents	\$ 61,925
Investments	<u>1,354,169</u>
Total	<u><u>\$1,416,094</u></u>

The Library reviews and manages its cash needs on a day-to-day basis. The majority of the Library's net assets are held within their Charles Schwab investment account. The \$1,416,094 of liquid assets at December 31, 2019 consists of \$1,354,169 contained in the investment account. This investment account can be drawn to cover cash needs based on the operating needs of the Library as there are no restrictions on these assets.

Note 4 – Investments

The Library reports its investments in marketable securities and investments in debt securities at fair value. Fair value represents the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability.

As a basis for considering such assumptions, generally accepted accounting principles establish a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

- Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Include other inputs that are directly or indirectly observable in the marketplace.
- Level 3 – Unobservable inputs which are supported by little or no market activity.

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Newport Public Library
Notes to Financial Statements
December 31, 2019

Note 4 – Investments (continued)

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability developed from sources independent of the reporting entity and unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in the pricing the asset or liability developed based on the best information available in the circumstances.

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include exchange traded equities. If quoted market prices are not available, securities are classified within Level 2 and fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow.

Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, corporate bonds, municipal bonds, other asset backed securities and other securities. Mutual fund fair values are based on net asset values of the underlying investments, which are considered Level 2. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

Realized and unrealized gains and losses on marketable securities are determined by using specific identification. All investment income and net increase (decrease) on investments are considered unrestricted unless the terms of the gift imposes a restriction on the current use of the investment income.

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Newport Public Library
Notes to Financial Statements
December 31, 2019

Note 4 – Investments (continued)

The Library holds stocks, corporate bonds, municipal bonds and mutual funds in a portfolio with Charles Schwab with a total market value of \$1,408,489 at December 31, 2019. These investments are valued based on level 1 and 2 inputs. A listing of said investments and their corresponding market value is listed below.

	Total	Level 1	Level 2	Level 3
Equities-Orrstown Financial Services	\$ 96,135	\$ 96,135	\$ -	\$ -
Equity Mutual Funds	688,517	-	688,517	-
Exchange Traded Funds	70,442	-	70,442	-
Fixed Income mutual funds	48,424	-	48,424	-
Corporate Bonds	359,969	-	359,969	-
Convertible Bonds	35,326	-	35,326	-
Other Fixed Income	3,026	-	3,026	-
Municipal bonds	52,330	-	52,330	-
Investments at fair value	<u>\$ 1,354,169</u>	<u>\$ 96,135</u>	<u>\$ 1,258,034</u>	<u>\$ -</u>
Money Market Funds*	54,320			
Total Investments	<u>\$ 1,408,489</u>			

*Money market funds included in the investment portfolio are not subject to provisions of fair value measurements as they are recorded at cost and included in cash and cash equivalents in the statement of financial position.

Note 5 - Litigation and Contingencies

During the normal course of performing its duties to the general public, which it serves, the Library is subject to potential threatened lawsuits and complaints. At September 1, 2020, the date these financial statements were available to be issued, there were no claims that management believes would have a material effect on the Library's financial position.

Note 6 - Operations

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

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Newport Public Library
Notes to Financial Statements
December 31, 2019

Note 7 - Leases

The Library has an operating lease for a copier. Total rent expense under the operating lease for the year ended December 31, 2019 was \$1,845. Future payments required by this lease are summarized as follows:

2020	\$	1,231
	\$	<u>1,231</u>

Note 8 – Subsequent Events

The COVID-19 outbreak in the United States and around the world has caused business disruption through mandated and voluntary closings and reduced operations of businesses, including the Library, its customers, and its contributors. There is considerable uncertainty around the duration and extent of the disruption and the economic impact. Therefore, it is reasonable to expect that the Library's financial condition and operating results could be negatively impacted, but the degree of such impact is uncertain at this time.

See Independent Accountant's Review Report