

Grove City Community Library

Financial Statements – Modified Cash Basis

Year Ended December 31, 2022
with Independent Auditor's Report

MaherDuessel

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GROVE CITY COMMUNITY LIBRARY

YEAR ENDED DECEMBER 31, 2022

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Independent Auditor's Report

**Board of Trustees
Grove City Community Library**

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Grove City Community Library (Library), which comprise the statement of assets, liabilities, and net assets – modified cash basis as of December 31, 2022 and the related statements of revenues, expenses, and changes in net assets – modified cash basis, functional expenses – modified cash basis, and cash flows – modified cash basis for the year then ended, and the related notes to financial statements – modified cash basis.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and net assets of the Library as of December 31, 2022, and its revenue and expense for the year then ended in accordance with the modified cash basis of accounting as described in the notes of the financial statements.

Basis for Opinion

We conducted our audit 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 Library and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in the Notes of the financial statements, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment 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 Library'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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Library'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.

Maher Duessel

Pittsburgh, Pennsylvania
September 30, 2024

GROVE CITY COMMUNITY LIBRARY, INC.

STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS - MODIFIED CASH BASIS

DECEMBER 31, 2022

Assets	
Cash and cash equivalents	\$ 14,504
Investments	75,668
Fixed assets, net of accumulated depreciation	<u>623,674</u>
Total Assets	<u>\$ 713,846</u>
Liabilities and Net Assets	
Liabilities:	
Payroll taxes payable	<u>\$ 9,350</u>
Total Liabilities	<u>9,350</u>
Net Assets:	
Without donor restrictions	698,859
With donor restrictions	<u>5,637</u>
Total Net Assets	<u>704,496</u>
Total Liabilities and Net Assets	<u>\$ 713,846</u>

See accompanying notes to financial statements- modified cash basis.

GROVE CITY COMMUNITY LIBRARY, INC.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Totals
Revenues:			
Contributions and grants	\$ 102,734	\$ -	\$ 102,734
Fines and other operating revenues	15,661		15,661
Fundraising	12,513	-	12,513
Net investment income (Loss)	(20,226)	(382)	(20,608)
Total revenues	110,682	(382)	110,300
Expenses:			
Program	225,583	-	225,583
Management and general	83,974	-	83,974
Fundraising	695	-	695
Total expenses	310,252	-	310,252
Change in net assets before changes related to collection items not capitalized	(199,570)	(382)	(199,952)
Changes in net assets related to collection items not capitalized:			
Collection items purchased	(23,305)	-	(23,305)
Change in Net Assets	(222,875)	(382)	(223,257)
Net Assets:			
Beginning of year	921,734	6,019	927,753
End of year	\$ 698,859	\$ 5,637	\$ 704,496

See accompanying notes to financial statements- modified cash basis.

GROVE CITY COMMUNITY LIBRARY, INC.

STATEMENT OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2022

	Program	Management and General	Fundraising	Total
Salaries	\$ 139,547	\$ 61,112	\$ -	\$ 200,659
Payroll taxes and benefits	21,663	5,797	-	27,460
Operating	23,884	12,378	-	36,262
Collection supplies	11,918	-	-	11,918
Fundraising	-	-	695	695
Programs	6,353	-	-	6,353
Depreciation	21,183	-	-	21,183
Miscellaneous	1,035	4,687	-	5,722
	<u>\$ 225,583</u>	<u>\$ 83,974</u>	<u>\$ 695</u>	<u>\$ 310,252</u>
Total expenses	<u>\$ 225,583</u>	<u>\$ 83,974</u>	<u>\$ 695</u>	<u>\$ 310,252</u>

See accompanying notes to financial statements- modified cash basis.

GROVE CITY COMMUNITY LIBRARY, INC.

STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2022

Cash Flows From Operating Activities:

Change in net assets	\$ (223,257)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation	21,183
Net realized and unrealized (gains) losses on investments	24,635
Change in:	
Payroll taxes payable	6,137
Net cash provided by (used in) operating activities	(171,302)

Cash Flows From Investing Activities:

Purchase of fixed assets	(9,953)
Purchase of investments	(1,789)
Sale of investments	185,273
Net cash provided by (used in) investing activities	173,531
Net Increase (Decrease) in Cash and Cash Equivalents	2,229

Cash and Cash Equivalents:

Beginning of year	12,275
End of year	\$ 14,504

See accompanying notes to financial statements- modified cash basis.

GROVE CITY COMMUNITY LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2022

1. Library and Nature of Activities

The function of the Grove City Community Library, Inc. (Library) is to promote literacy enhancement and entertainment to the people of the surrounding community. The Library is funded through donations, pledges, and fundraisers, as well as, receiving support from local municipalities and other non-profit libraries. These funds are used to purchase literacy inventory, as well as, to maintain the fixed assets.

2. Summary of Significant Accounting Principles

Basis of Accounting

The Library's financial statements have been prepared on the modified cash basis of accounting which is a comprehensive basis of accounting, other than accounting principles generally accepted in the United States of America. Consequently, revenues are recognized when received, rather than when promised or earned, and expenses are recognized when cash is disbursed, rather than when the obligation is incurred. Long-term debt, including operating lease liabilities, is not recorded as a liability under the modified cash basis of accounting. Under the modified cash basis, the financial transactions of the Library (except for investments being recorded at fair value, the capitalization of fixed assets and related depreciation, and the recording of payroll accruals) are recorded when the actual cash transaction occurs, regardless of when the revenue is earned or the expense obligations are incurred.

Financial Statement Presentation

The Library reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions as follows:

Net Assets Without Donor Restrictions – Net assets not subject to donor-imposed restriction or stipulations as to purpose or use.

Net Assets With Donor Restrictions – Net assets that are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will meet either the actions of the Library and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that the resources are maintained in perpetuity. Generally, the donors of these assets permit the use of all or part of the income earned and capital gains, if any, on related

GROVE CITY COMMUNITY LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2022

investments for general or specific purposes. When a donor-restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of revenues, expenses, and changes in net assets - modified cash basis as net assets released from restrictions. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. It is the Library's policy to report contributions with restrictions whose restrictions are met in the same fiscal year as contributions without donor restrictions. At December 31, 2022, the Library had \$5,637 in net assets with donor restrictions restricted as an endowment.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Library considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are valued at fair values as further discussed in Note 4.

The Library's investments are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that significant changes in risks in the near-term may materially affect the amounts reported in the financial statements.

Realized and unrealized gains or losses are determined based on specific identification by comparison of asset cost to net proceeds received at the time of disposal or changes in the difference between fair values and cost, respectively. Realized and unrealized gains or losses are reflected in the applicable net assets without donor restrictions or net assets with donor restrictions.

Fixed Assets

Fixed assets with a value of \$1,000 or greater are capitalized at cost and depreciated over the estimated useful lives of the respective assets on a straight-line basis.

GROVE CITY COMMUNITY LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2022

Leases

In accordance with the modified cash basis of accounting, operating lease payments are recorded as part of expense at the time of the lease payment. Right of-use assets and operating lease liabilities associated with operating leases have not been recorded. Finance leases are included in fixed assets on the statements of assets, liabilities, and net assets- modified cash basis.

Compensated Absences

Employees of the Library are entitled to paid vacation depending on the length of service and other factors. No carryover to future years of these compensated absences is permitted and, accordingly, no liability has been recorded in the accompanying modified cash basis financial statements. The Library's policy is to recognize the costs of compensated absences when actually paid to employees.

Collections

The collections of the Library, which were acquired through purchases and contributions since the Library's inception, are not recognized as assets on the statement of assets, liabilities, and net assets - modified cash basis. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired, or as decreases in net assets with donor restrictions if the assets used to purchase the items were restricted by donors. Contributed collection items are not reflected on the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

Revenue and Revenue Recognition

Contributions that the Library receives from Grove City, local governments, and grants are generally available for unrestricted use for operating purposes.

Contributed Services

Many volunteers make significant contributions to the Library, principally in the areas of administration and fundraising. The value of the volunteers' contributed time is not reflected in the accompanying financial statements, in accordance with the modified cash basis of accounting.

GROVE CITY COMMUNITY LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2022

Concentration of Risk Factors

The Library's main source of revenue is earned through state and local government funding, as well as contributions from individuals, foundations, Libraries, and businesses in the Western Pennsylvania area. In addition, its employees and vendors primarily reside in the Grove City area. Thus, economic, political, and demographic influences on the Western Pennsylvania area have a substantial impact on the Library's operations.

Income Taxes

The Internal Revenue Service considers the Library exempt from federal income tax as defined in Section 501(c)(3) of the Internal Revenue Code and is considered to be "other than a private foundation." Further, the Library annually files a Form 990.

Accordingly, no provision for income taxes is recorded in the financial statements. The Library has not identified any material uncertain tax positions requiring an accrual or disclosure in the financial statements.

Functional Expenses

The costs of providing the various programs and support services have been summarized on a functional basis in the statement of revenues, expenses, and changes in net assets - modified cash basis. Expenses directly related to a specific program are charged to that program. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses are allocated based on the job descriptions of certain staff and the average costs to fulfill the mission of the Library.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent asset and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

GROVE CITY COMMUNITY LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2022

Adopted Accounting Standards

The provisions of these Standards Updates have been adopted and incorporated into these financial statements:

ASU 2016-02, *“Leases (Topic 842).”* These amendments and related amendments require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than twelve months. Disclosures are required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The adoption of this standard had no material impact on these financial statements as the Library reported on the modified cash basis of accounting.

ASU 2020-07, *“Not-For-Profit Entities (Subtopic 958): Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets.”* The amendments in this update expand upon the presentation and disclosure of contributed nonfinancial assets to provide the reader of the financial statements a clearer understanding of the types of nonfinancial assets received and how they are utilized and recognized by the not-for-profit Library. The adoption of this standard had no impact on these financial statements as the Library reported on the modified cash basis of accounting.

Pending Accounting Standards Update

The Financial Accounting Standards Board (FASB) has issued Accounting Standards Updates (individually and collectively, ASU) that will become effective in future years as outlined below. Management has not yet determined the impact of these updates on the financial statements.

ASU 2016-13, *“Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,”* is effective, as delayed, for the financial statements for the year beginning after December 15, 2022. These amendments and related amendments require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. This includes loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash.

GROVE CITY COMMUNITY LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2022

Subsequent Events

Subsequent events have been evaluated through the Independent Auditor's Report date, which is the date the financial statements were available to be issued.

3. Cash and Cash Equivalents

Cash and cash equivalents are deposited at local banks. At December 31, 2022, the carrying amounts of the Library's deposits were \$14,504 and the bank balances were \$25,203. All of the bank balances were federally insured by the Federal Deposit Insurance Corporation (FDIC) as of December 31, 2022.

4. Investments

Investment are comprised of the following as of December 31, 2022 are as follows:

Description	Fair Value Measurements at Reporting Date Using			
	(Level 1)	(Level 2)	(Level 3)	Total
Unit investment trusts	\$ 68,877	\$ -	\$ -	\$ 68,877
Common stocks	3,200	-	-	3,200
Total investments measured at fair value	72,077	-	-	72,077
Cash equivalents	728	-	-	728
Certificates of deposit	2,863	-	-	2,863
Total investments	\$ 75,668	\$ -	\$ -	\$ 75,668

Fair values of assets measured are recorded on a recurring basis. Fair values for Level 1 financial instruments are determined by quoted prices in the active market for identical financial instruments. Fair values for Level 2 financial instruments are determined by other significant observable inputs (quoted prices for similar financial instruments, interest rates, prepayment speeds, credit risk, etc.). Fair values for Level 3 financial instruments are determined by significant unobservable inputs, including the Library's own assumptions in determining the fair value of financial instruments. The Library's certificate of deposit is valued at amortized cost and is fully insured by FDIC coverage at December 31, 2022.

GROVE CITY COMMUNITY LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2022

5. Fixed Assets

Fixed assets for the year ended December 31, 2022 consisted of the following:

Finance lease- right of use asset	\$ 150,000
Leasehold improvements	723,465
Equipment	20,075
Furniture and fixtures	<u>102,429</u>
Total fixed assets	995,969
Less: accumulated depreciation	<u>(372,295)</u>
Net fixed assets	<u><u>\$ 623,674</u></u>

Finance Lease

In 1987, the Library entered into a lease agreement with the Borough of Grove City for their present library facility. In exchange for the \$150,000 in advance payments, the Library was given a 99-year leasehold interest. The \$150,000 has been capitalized and is being amortized over 99 years using the straight-line method. The weighted average remaining lease term totaled 62.6 years. The total amortization of the finance lease cost totaled \$1,515 for the year ending December 31, 2022.

6. Endowments

As required by the modified cash basis of accounting, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions, considering the laws of the state for endowment management. In Pennsylvania, those laws are found in 15 Pa C.S. 5548.

Investment Policies- The investment objective of the Library is to diversify investments to the greatest extent possible to minimize risks while achieving desired investment returns. The primary goal of the investments is to provide perpetual funding for the Library's operational needs and maximize total return

Spending Policies - As the investment goal is to maximize total return, it is understood that some of the principal growth in addition to the income may be used annually for operational needs.

GROVE CITY COMMUNITY LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2022

Interpretation of Relevant Law - The Board of Trustees has interpreted the law as requiring the preservation of the fair value of corpus of a donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Library classifies as net assets with donor restrictions (a) the original value of gifts donated to the temporary or permanent endowment, (b) the original value of any subsequent gifts to the temporary or permanent endowment, and (c) accumulations to the temporary or permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. All unspent appreciation, depreciation and income is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Library in a manner consistent with 15 Pa C.S. 5548.

The following schedule summarizes the Library's changes in the endowment net assets as of December 31, 2022

Endowment assets, January 1, 2022	\$6,019
Unrealized gains (losses)	<u>(382)</u>
Endowment assets, December 31, 2022	<u>\$5,637</u>

7. Operating Leases

During 2016, the Library entered into a five-year lease agreement for a copy machine requiring monthly payments of \$323. In August 2020, the Library entered into a new five year lease requiring monthly payments of \$300 through August 2025. Lease expense for the year ending December 31, 2022 was \$3,445. Future minimum lease payments at December 31 are as follows:

December 31, 2023	\$3,600
December 31, 2024	3,600
December 31, 2025	2,400

GROVE CITY COMMUNITY LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2022

8. Liquidity and Availability

The Library manages its liquid resources by focusing on government funding, donations, grants, and investments to ensure it has adequate revenue to cover the programs that are being conducted. The Library prepares detailed budgets which are monitored throughout the year by the Library Director and the Board.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following as of December 31, 2022:

Cash and cash equivalents	\$ 14,504
Investments	<u>75,668</u>
Total financial assets at year-end	<u>90,172</u>
Less those unavailable for general expenditures within one year due to:	
Restricted by donor with purpose restrictions	<u>(5,637)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 84,535</u></u>

9. Litigation

The Library is a party in litigation against the former director of the Library for alleged theft of assets. The attached modified cash basis financial statements do not contain any provisions for the return of funds that might occur.

Board of Trustees Grove City Community Library

In planning and performing our audit of the financial statements of the Grove City Community Library (Library) as of and for the year ended December 31, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the Library's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Library's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in the Library's internal control to be material weaknesses:

Segregation of Duties

During our review of internal controls over cash disbursements, we noted a lack segregation of duties exists as the Library Director receives invoices, posts disbursements into the Quickbooks general ledger system (Quickbooks), creates checks, mails checks, is an authorized check signer, and receives and reconciles the monthly bank statements. As a mitigating control, the Board of Trustee's Treasurer has online access to Quickbooks.

Regarding controls over payroll, we noted that a lack of segregation of duties exists as the Library Director enters employee data including payrates into Quickbooks, processes payroll, creates checks, posts payroll to the Quickbooks, is an authorized check signer, and receives and reconciles the monthly bank statements. In addition, during the year, we noted the Library Director was paid in excess of the payrate established by the Board of Directors (Board) as

there is no independent review of the monthly payroll register or review of the payrates entered into the system by a party independent of the other payroll functions. As a mitigating control, the Board of Trustees does annually approve employee payrates.

For cash receipts received, we noted that a lack of segregation of duties exists as the Library Director opens the mail, prepares the deposits, deposits receipts at the bank, records transactions in Quickbooks, and is responsible for performing the monthly bank reconciliations. In addition, there is no reconciliation of the cash receipts received, either via mail or through the cash register, versus what is recorded in Quickbooks. We also noted that deposits were not being done on a routine basis.

Ideally, responsibilities for custody, accounting, and control of assets should be segregated. We recognize that segregating all internal control functions may be impractical, nonetheless, management needs to appreciate that an absence of segregation can allow errors or irregularities to occur and not be detected. We recommend that the Library improve internal controls over their internal control systems through removing check signing abilities of the Library Director. In addition, we recommend that an individual independent of the payroll, cash receipt, and cash disbursement processes receive the monthly unopened or online access to bank statements and review them and the corresponding cancelled checks images. Also, the monthly bank reconciliations should be reviewed by someone who is independent of their preparation. These reviews should be formally documented on the bank statements. In conjunction with payroll, we also recommend that someone independent of the payroll processing review the monthly Quickbooks payroll registers. Related to cash receipts, we recommend that a reconciliation of the cash receipts received, either via mail or through the cash register, is performed versus what is recorded in Quickbooks. In addition, we recommend the Library establish a routine for making deposits of cash receipts to the bank to minimize the risk of cash being misappropriated prior to being deposited.

Fixed Asset Detail

A detailed fixed asset ledger is currently not maintained by the Library. A fixed asset listing should include the historical cost of all fixed assets on hand, useful lives, and depreciation calculations. This listing should reflect fixed asset additions and deletions and be reconciled to the trial balance. As a fixed asset detail is not maintained and updated, material journal entries were proposed during the audit in order to recording current year additions and depreciation expense. We recommend that the Library maintain a fixed asset detail and update such listing at a minimum annually.

Financial Reporting

During the audit process, various audit adjustments were recommended and posted to produce the Library's financial statements. These adjustments were developed in conjunction with the Library's personnel. Adjustments were required to adjust investment activity, record fixed asset activity, reclassify expenses, adjust payroll liability accounts, adjust petty cash, and record prior year audit adjustments. Without proper controls over the financial reporting process, errors in reporting can occur and not be detected in a timely fashion. A fully developed system of financial reporting controls would ensure that all necessary entries are made by the Library's personnel prior to presentation of the financial information for audit. We recommend that management considers what measures can be taken to eliminate the number of entries posted after closing to enhance the financial accounting and reporting system.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Library's internal control to be significant deficiencies:

Friends of the Library

During the current year testing of cash accounts held under the employee identification number (EIN) of the Library, we noted that the Library maintains a bank account titled Friends of the Library. We noted that the activity within the Friends of the Library bank account is not being recorded within Quickbooks of the Library, nor is this bank account being reconciled within Quickbooks. Although the account is being managed by an independent board and not significant to the operations of the Library, we recommend that as the assets of the account are held under the EIN of the Library that the activity within the account is recorded monthly. In addition, we recommend that bank reconciliations should be completed in a timely manner for all bank accounts.

Policies and Procedures

The Library does not currently have written policies and procedures to guide many aspects of financial operations. The lack of formally written policies and procedures can allow for inconsistent implementation by employees and management. Additionally, the Form 990 requires certain policies be formally adopted to be in compliance with IRS standards. We recommended that management adopt the following policies and procedures to guide operations:

- Accounting - documentation including cash disbursements procedures (including purchasing such as bidding, quote requirements, and use of purchase orders), cash receipting procedures, and payroll procedures.
- Investment policy – an investment policy that is established and reviewed periodically ensures that the investments held by the Library are consistent with its current and long-term financial and risk-management objectives.
- Whistle blower – documentation on how and to whom employees should report fraud and other illegal acts.
- Contributions and donations - guidance on what contributions and donations should be accepted, and how contributions and donations are acknowledged.
- Records retention and destruction policy for accounting and other records - such a policy helps to limit accidental or innocent destruction. The record retention policy should include guidelines for handling electronic files and voicemail. The record retention policy should also include back-up procedures, archiving documents, and regular check-ups of the reliability of the system.
- Fixed asset – documentation of capitalization thresholds, useful life determination, and formalization of the Library's policy surrounding the capitalization of book collections.
- Cost allocation – such policy will ensure Library expenses are being allocated by their functional classification including both program functions, as well as supporting activities such as management and general and fundraising. This allocation of costs across functions is also required for the preparation of the Internal Revenue Services (IRS) Form 990.
- Journal entry – a policy documenting the process whereby journal entries are reviewed and documented as approved by someone independent of the posting process.
- Debit/credit card – a written policy regarding credit cards to document which employees are authorized to use credit/debit cards, guidelines of acceptable use, procedures for turning in purchase receipts or other documentation, review of credit card purchases, and consequences for credit card misuse. We also recommend that the Library consider requirements of the Internal Revenue Service related to employee business expenses, specifically ensuring that records are accurate with regard to the amount, time, description, and business purpose of the expenses.

Once established, the policies and procedures should be reviewed and regularly updated to promote consistent operations of the Library and help minimize disruption in the event of personnel changes.

We noted certain other matters involving internal control:

Information Technology Controls

General information technology (IT) controls require that employees be properly trained to prevent data compromises. This is especially important with the now-constant threat of ransomware, which we have seen impact a number of our clients in the non-profit and governmental industry in the Pittsburgh region. Using social engineering techniques, the careless or untrained user clicks on a phishing message, a contaminated web advertisement, or visits a malicious website and the ransomware is released into the system, where it encrypts the hard drive using cryptographic key technology, locking down the target information. During our review of IT processes and procedures, we noted that cybersecurity training is not currently provided to employees, covering topics such as phishing and business email compromise scans.

We recommend that the Library develop a plan to conduct periodic trainings on phishing and business email compromise scans.

In addition, we noted the Library does not have a written disaster recovery plan (plan). We recommend that management author and implement a plan that clearly outlines what procedures would be followed in the event of an emergency. Further, we recommend that the plan be reviewed regularly to ensure it is still applicable and tested periodically.

Timeliness of Pension Contributions

The Department of Labor (DOL) regulations require that the pension plan sponsor remit employee deferral amounts withheld by an employer to the pension plan as soon as they can be reasonably segregated from the employer's general assets, but no later than the fifteenth business day of the month subsequent to the month in which the participant contributions are withheld. During our review, employee contributions were not being made timely into the pension plan. We recommend that the Library take steps to ensure that all employee contributions are submitted within a consistent number of business days after each payroll period.

Gift Cards

During our review of Library expense transactions, it was noted that gift cards are purchased to be given to employees for gifts and incentives. Gift cards given to employees are considered taxable wages by the Internal Revenue Services and must be reported as part of taxable compensation. The Library should review their practices surrounding giving employee gift cards to ensure that all gift card amounts are being properly reported as taxable wages.

Petty Cash

During our testing, we noted that during the year, employee pay checks were being cashed out of the Library's petty cash fund. We also noted that there is no formal policy on how the Library maintains and tracks the spending of petty cash. The petty cash procedures currently used do not provide detailed information and authorization for the amounts utilized out of petty cash. We recommend that the Library review the need for petty cash and if it is determined such is needed that the Library develop a policy and implement procedures to maintain a petty cash log and reconcile such log to Quickbooks on a routine basis.

This communication is intended solely for the information and use of management, Board of Trustees, and others within the Library, and is not intended to be, and should not be, used by anyone other than these specified parties.

Mahe Duessel

Pittsburgh, Pennsylvania
September 30, 2024