

**CHARLESTON LIBRARY SOCIETY**  
**INDEPENDENT AUDITOR'S REPORT**  
**AND**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**CHARLESTON LIBRARY SOCIETY  
CHARLESTON, SOUTH CAROLINA  
INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**CONTENTS**

	<u>PAGE</u>
Independent Auditor's Report	1 - 2
<u>Financial Statements</u>	
Statements of Financial Position	3
Statements of Activities	4 - 5
Statements of Functional Expenses	6 - 7
Statements of Cash Flows	8
Notes to Financial Statements	9 - 19
<u>Supplementary Information</u>	
Schedule I - Comparison of Actual to Budgeted	20

# STREETMAN, JONES & POWERS, LLC

*Certified Public Accountants and Business Advisors*

---

Phone: 843.723.3133

Fax: 843.723.3122

Internet: [www.cpacharleston.com](http://www.cpacharleston.com)

171 Church Street

Suite 240

Charleston, SC 29401

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Charleston Library Society  
Charleston, South Carolina

We have audited the accompanying financial statements of Charleston Library Society (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of 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 Charleston Library Society as of December 31, 2018 and 2017, and the changes in its net assets 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 audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Comparison of Actual to Budgeted Revenues and Expenses on page 20 is presented for purposes of additional analysis and is not a required part of the basic 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 audit 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.

*Streetman, Jones & Powers, LLC*

Streetman, Jones & Powers, LLC  
Charleston, South Carolina  
May 10, 2019

**CHARLESTON LIBRARY SOCIETY  
STATEMENTS OF FINANCIAL POSITION**

	<b>AS OF DECEMBER 31,</b>	
<b>ASSETS</b>	<b>2018</b>	<b>2017</b>
<b>CURRENT ASSETS</b>		
Cash	\$ 1,571,018	\$ 717,360
Prepaid expenses	-	12,523
Investments, at market, short-term	<u>295,000</u>	<u>300,000</u>
Total current assets	<u>1,866,018</u>	<u>1,029,883</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land	264,000	264,000
Building, machinery and equipment, net	<u>2,406,146</u>	<u>1,891,119</u>
Total property and equipment	<u>2,670,146</u>	<u>2,155,119</u>
<b>OTHER ASSETS</b>		
Investments, at market, long-term	<u>5,376,538</u>	<u>5,874,258</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 9,912,702</u></b>	<b><u>\$ 9,059,260</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Trade accounts payable	\$ 115,620	\$ 316,603
Deferred program revenue	42,637	96,892
Revolving line of credit	<u>550,694</u>	<u>550,694</u>
Total current liabilities	<u>708,951</u>	<u>964,189</u>
<b>LONG-TERM LIABILITIES</b>		
Deposit received from tenant	<u>3,200</u>	<u>3,200</u>
<b>NET ASSETS</b>		
Without donor restrictions	6,238,957	6,109,406
With donor restrictions	<u>2,961,594</u>	<u>1,982,465</u>
Total net assets	<u>9,200,551</u>	<u>8,091,871</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 9,912,702</u></b>	<b><u>\$ 9,059,260</u></b>

The accompanying notes are an integral part of the financial statements.

**CHARLESTON LIBRARY SOCIETY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Without Donor Restrictions</u>	<u>With Donor Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUES</b>			
Contributions	\$ 550,261	\$ 2,089,817	\$ 2,640,078
Grants	38,150	-	38,150
Program Income	220,550	-	220,550
Rental Income	59,516	-	59,516
Interest and dividends, (net of fees of \$27,998 and \$8,919)	215,214	58,483	273,697
Realized gains (losses)	31,261	9,959	41,220
Unrealized gains (losses)	<u>(543,104)</u>	<u>(173,015)</u>	<u>(716,119)</u>
Subtotal	571,848	1,985,244	2,557,092
Net assets released from restriction	<u>1,006,115</u>	<u>(1,006,115)</u>	<u>-</u>
Total support and revenues	<u>1,577,963</u>	<u>979,129</u>	<u>2,557,092</u>
<b>FUNCTIONAL EXPENSES</b>			
Program services	1,030,101	-	1,030,101
Supporting services			
General and administrative	307,304	-	307,304
Fundraising	<u>111,007</u>	<u>-</u>	<u>111,007</u>
Total expenses	<u>1,448,412</u>	<u>-</u>	<u>1,448,412</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>			
	129,551	979,129	1,108,680
Beginning net assets	<u>6,109,406</u>	<u>1,982,465</u>	<u>8,091,871</u>
Ending Net Assets	<u>\$ 6,238,957</u>	<u>\$ 2,961,594</u>	<u>\$ 9,200,551</u>

The accompanying notes are an integral part of the financial statements.

**CHARLESTON LIBRARY SOCIETY  
STATEMENTS OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>SUPPORT AND REVENUES</b>			
Contributions	\$ 615,808	\$ 630,240	\$ 1,246,048
Grants	86,924	-	86,924
Program Income	165,650	-	165,650
Rental Income	58,855	-	58,855
Interest and dividends, (net of fees of \$38,390 and \$9,966)	118,252	30,092	148,344
Realized gains (losses)	68,673	21,877	90,550
Unrealized gains (losses)	<u>281,425</u>	<u>89,652</u>	<u>371,077</u>
Subtotal	1,395,587	771,861	2,167,448
Net assets released from restriction	<u>295,370</u>	<u>(295,370)</u>	<u>-</u>
 Total support and revenues	 <u>1,690,957</u>	 <u>476,491</u>	 <u>2,167,448</u>
<b>FUNCTIONAL EXPENSES</b>			
Program services	904,641	-	904,641
Supporting services			
General and administrative	239,314	3,803	243,117
Fundraising	<u>92,873</u>	<u>42,000</u>	<u>134,873</u>
 Total expenses	 <u>1,236,828</u>	 <u>45,803</u>	 <u>1,282,631</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>			
	454,129	430,688	884,817
 Beginning net assets	 <u>5,655,277</u>	 <u>1,551,777</u>	 <u>7,207,054</u>
 Ending Net Assets	 <u>\$ 6,109,406</u>	 <u>\$ 1,982,465</u>	 <u>\$ 8,091,871</u>

The accompanying notes are an integral part of the financial statements.

**CHARLESTON LIBRARY SOCIETY  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Program Services</u>	<u>Management &amp; General</u>	<u>Fund- raising</u>	<u>Total</u>
<b>COMPENSATION AND RELATED EXPENSES</b>				
Salaries	\$ 492,378	\$ 140,680	\$ 70,340	\$ 703,398
Employee benefits	36,716	10,490	5,245	52,451
Retirement	22,326	6,379	3,189	31,894
Taxes - payroll	<u>37,287</u>	<u>10,653</u>	<u>5,327</u>	<u>53,267</u>
<b>TOTAL COMPENSATION AND RELATED EXPENSES</b>	<b>588,707</b>	<b>168,202</b>	<b>84,101</b>	<b>841,010</b>
<b>OTHER EXPENSES</b>				
Utilities	44,018	11,004	-	55,022
Maintenance	51,322	12,831	-	64,153
Insurance	49,500	12,375	-	61,875
Books	10,909	-	-	10,909
Professional fees	-	15,435	-	15,435
Minor equipment	21,773	5,443	-	27,216
Miscellaneous expenses	12,594	3,149	1,749	17,492
Periodicals	3,642	-	-	3,642
Travel	22	-	-	22
Fundraising expenses	-	-	18,104	18,104
Development	40,135	-	4,460	44,595
Restoration	-	42,054	-	42,054
Newsletter	12,242	-	1,360	13,602
Advertising	4,930	-	1,233	6,163
Supplies	12,333	-	-	12,333
Video	6,395	-	-	6,395
Bank charges	4,474	1,118	-	5,592
Adult programs	70,079	-	-	70,079
Professional development	-	4,417	-	4,417
Taxes - property	<u>-</u>	<u>7,019</u>	<u>-</u>	<u>7,019</u>
<b>TOTAL EXPENSES BEFORE DEPRECIATION</b>	<b>933,075</b>	<b>283,047</b>	<b>111,007</b>	<b>1,327,129</b>
Depreciation	<u>97,026</u>	<u>24,257</u>	<u>-</u>	<u>121,283</u>
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b><u>\$ 1,030,101</u></b>	<b><u>\$ 307,304</u></b>	<b><u>\$ 111,007</u></b>	<b><u>\$ 1,448,412</u></b>

The accompanying notes are an integral part of the financial statements.



**CHARLESTON LIBRARY SOCIETY  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Program Services</u>	<u>Management &amp; General</u>	<u>Fund- raising</u>	<u>Total</u>
<b>COMPENSATION AND RELATED EXPENSES</b>				
Salaries	\$ 388,159	\$ 110,902	\$ 55,451	\$ 554,512
Employee benefits	30,286	8,653	4,327	43,266
Retirement	12,698	3,628	1,814	18,140
Taxes - payroll	<u>28,770</u>	<u>8,220</u>	<u>4,110</u>	<u>41,100</u>
<b>TOTAL COMPENSATION AND RELATED EXPENSES</b>	459,913	131,403	65,702	657,018
<b>OTHER EXPENSES</b>				
Utilities	54,882	13,720	-	68,602
Maintenance	62,207	15,552	-	77,759
Insurance	28,036	7,009	-	35,045
Books	14,835	-	-	14,835
Professional fees	-	9,450	-	9,450
Minor equipment	25,354	6,339	-	31,693
Miscellaneous expenses	16,625	4,156	2,309	23,090
Periodicals	3,682	-	-	3,682
Travel	4,317	-	-	4,317
Fundraising expenses	-	-	42,000	42,000
Development	13,720	-	1,524	15,244
Restoration	58,386	-	-	58,386
Newsletter	8,293	-	922	9,215
Advertising	5,636	-	22,416	28,052
Supplies	17,293	-	-	17,293
Video	3,093	-	-	3,093
Bank charges	1,975	494	-	2,469
Adult programs	47,753	-	-	47,753
Junior Programs	125	-	-	125
Professional development	-	4,688	-	4,688
Printing and reproduction	-	20,425	-	20,425
Interest expense	-	4,185	-	4,185
Taxes - property	-	<u>6,067</u>	-	<u>6,067</u>
<b>TOTAL EXPENSES BEFORE DEPRECIATION</b>	826,125	223,488	134,873	1,184,486
Depreciation	<u>78,516</u>	<u>19,629</u>	<u>-</u>	<u>98,145</u>
<b>TOTAL FUNCTIONAL EXPENSES</b>	<u>\$ 904,641</u>	<u>\$ 243,117</u>	<u>\$ 134,873</u>	<u>\$ 1,282,631</u>

The accompanying notes are an integral part of the financial statements.

**CHARLESTON LIBRARY SOCIETY  
STATEMENTS OF CASH FLOWS**

	<b>FOR THE YEARS ENDED DECEMBER 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	\$ 1,108,680	\$ 884,817
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	121,283	98,145
Net realized (gains) losses on investments	(41,220)	(90,550)
Net unrealized (gains) losses on investments	716,119	(371,077)
Decrease (increase) in:		
Prepaid expenses	12,523	24,668
Increase (decrease) in:		
Accounts payable	(200,982)	304,669
Deferred program revenue	(54,255)	67,837
Net cash provided by (used in) operating activities	<u>1,662,148</u>	<u>918,509</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Line of credit (net)	-	550,694
Net cash provided by (used in) financing activities	<u>-</u>	<u>550,694</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Construction in process	(561,384)	(308,787)
Building improvements	(74,926)	(735,530)
Purchase of HVAC unit	-	(94,837)
Proceeds from sale of marketable securities	3,713,064	2,488,409
Purchase of marketable securities	(3,885,244)	(2,361,733)
Net cash provided by (used in) financing activities	<u>(808,490)</u>	<u>(1,012,478)</u>
Net increase in cash	853,658	456,725
Cash and cash equivalents at beginning of year	<u>717,360</u>	<u>260,635</u>
Cash and Cash Equivalent at End of Year	<u>\$ 1,571,018</u>	<u>\$ 717,360</u>

The accompanying notes are an integral part of the financial statements.

**CHARLESTON LIBRARY SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

---

**1. Summary of Significant Accounting Policies**

**A. Nature of activities**

Founded in 1748, the Charleston Library Society (the Society) is the South's oldest cultural institution and the second oldest circulating library in the United States. For more than 250 years, it has collected, preserved and made available cultural materials for the use of its members and researchers around the world. Today, it is a circulating library and a repository of rare books periodicals, manuscripts, clippings, maps, directories, almanacs and visual materials.

**B. Basis of Accounting**

The financial statements of the Charleston Library Society have been prepared on the accrual basis of accounting, whereby revenue is recognized at the time it is earned and expenditures are recorded at the time they are incurred. Accordingly the financials reflect all significant receivables, payables, and other liabilities.

**C. Revenue Recognition**

Contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence or nature of any donor restrictions.

Support that is restricted by the donor or grantor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor or grantor- restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. 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 and reported in the statement of activities as net assets released from restrictions.

Memberships - Revenue is recognized as payments are received.

Unearned Revenue - Amounts received prior to performing services are recorded as unearned revenue. Unearned revenue totaled \$42,637 and \$96,892 at December 31, 2018 and 2017, respectively.

**D. Cash and Cash Equivalents**

For the purposes of the statements of cash flows, the Society considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. This includes cash in banks, certificates of deposit and money market funds. Cash restricted for use in renovating and upgrading facilities under the capital campaign totaled \$1,419,971 and \$474,764 at December 31, 2018 and 2017, respectively

**E. Promises to Give**

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases in liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

**CHARLESTON LIBRARY SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

---

**1. Summary of Significant Accounting Policies - continued**

**F. Investments**

The Society's investments consist primarily of assets invested in marketable equity and debt securities, alternative investments, and money-market accounts. The Society accounts for investments in accordance with FASB ASC 958-320 and subsections. This standard requires that investments in equity securities with readily determinable fair values and all investments in debt securities be measured at fair value in the statements of financial position. Fair value of marketable equity and debt securities is based on quoted market prices.

Alternative investments are stated at the fair value of their underlying assets and allocated to the net asset funds in proportion to the funds' ownership percentage. The realized and unrealized gain or loss on investments is reflected in the statements of activities.

Investments are exposed to various risks such as significant world events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Investment income is recorded net of investment expenses. Realized gains or losses on investments are determined by comparison of specific cost of acquisition to proceeds at the time of disposal. Unrealized gains or losses are calculated by comparing cost to market values at the statements of financial position date.

Investment income and gains restricted by donors are reported as increases or decreases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

**G. Investment Policy**

The Society's investment policy intends for the Society to invest in assets that would produce results exceeding the investment's purchase price and incur a significant yield of return, while assuming a moderate level of investment risk. The Society expects its Investment Fund, over time, to provide a reasonable rate of return. To satisfy the long-term rate-of-return objective, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targets a diversified asset allocation that places a greater emphasis on marketable equity and debt securities and money-market accounts to achieve its long-term return objectives within prudent risk constraints.

**CHARLESTON LIBRARY SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

---

**1. Summary of Significant Accounting Policies - continued**

**H. Fair Value of Financial Instruments**

Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. ASC 820 is effective for the Society's financial assets and liabilities for the years ended December 31, 2018 and 2017. The estimated fair value amounts for specific groups of financial instruments are presented within the footnotes. Accounts receivable and accounts payable are stated at cost, which approximates fair value, due to their short term to maturity.

**I. Property and Equipment**

The Society capitalizes all expenditures in excess of \$2,500 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as unrestricted unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted. Absent donor stipulations regarding how long those donated assets must be maintained, the Society reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Society reclassifies temporarily restricted net assets to unrestricted net assets at that time

Depreciation is computed by the straight-line method over the estimated useful lives of the assets, ranging from 5 to 40 years.

Maintenance and repairs are charged to operations as incurred. Upon sale or disposition of property or equipment, the asset account is reduced by the cost and the accumulated depreciation account is reduced by the depreciation taken prior to the sale. Any resultant gain or loss is then recorded as income or expense.

**J. Impairment of Long-Lived Assets**

The Society reviews its long-lived assets for impairment whenever events and changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of real estate exceeds the fair value of such property.

There were no impairment losses recognized for the years ended December 31, 2018 and 2017.

**CHARLESTON LIBRARY SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

---

**1. Summary of Significant Accounting Policies - continued**

**K. Collections**

The Society follows the Financial Accounting Standards Board FASB ASC 958-360-50. Collection items acquired either through purchase or donations are not capitalized. Purchases of collection items are recorded as decreases in unrestricted net assets if purchased with unrestricted funds and as decreases in temporarily restricted net assets if purchased with donor-restricted funds. Gains from the sale of collection items that are not reinvested in the purchase of new collection items are recorded as increases in unrestricted net assets. Contributions of collection items are not recorded in the Statements of Activities. A collection inventory is maintained that list a description of the item, source, and storage location. See Note 8 - Collections.

**L. Compensated Absences**

Employees of the Society are entitled to paid vacations, paid sick days and personal days off, depending on job classification and length of service. After one year of service, each employee earns 20 personal days ratably through the year. No liability was recorded for estimated unused personal time as of December 31, 2018 and 2017, as all eligible employees had used their personal days.

**M. In-Kind Contributions**

The Society's records various types of in-kind contributions. Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or additions to property and equipment.

No amounts have been reflected in the financial statements for donated services. The Society pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Society with campaign solicitations and various committee assignments. In-kind tangible contributions for the years ended December 31, 2018 and 2017 were \$711 and \$3,434.

**N. Functional Allocation of Expenses**

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**O. Advertising**

Cost of promotions and advertising are expensed as incurred. Advertising and promotion expense total \$6,163 and \$28,051 for years ended December 31, 2018 and 2017, respectively.

**CHARLESTON LIBRARY SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**1. Summary of Significant Accounting Policies - continued**

**P. Income Tax Status**

The Society is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law as a charitable organization whereby only unrelated business income, if any, as defined by the Code, is subject to federal income tax. The Society qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an association other than a private foundation.

Management has evaluated the tax positions of the Society and does not believe that any uncertain tax positions or unrecognized tax benefits exist for the years ended December 31, 2018 and 2017. The Society's policy is to report accrued interest related to unrecognized tax benefits, when applicable, as interest expense and to report penalties as other expense.

**Q. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**2. Investments**

Investments held by the Society are in various accounts at a national brokerage firm. Investment fees are netted against gains and losses. Investments are stated at fair market value and consist of the following:

	<u>2018</u>		<u>2017</u>	
	<u>FMV</u>	<u>Cost</u>	<u>FMV</u>	<u>Cost</u>
Money Market	\$ 442,414	\$ 442,414	\$ 259,980	\$ 259,980
Fixed income mutual funds/bonds				
Domestic	1,348,865	1,345,678	1,428,782	1,454,436
International	-	-	-	-
Equity mutual fund/stocks				
Domestic	2,805,293	3,003,364	2,777,796	2,523,392
International	930,817	1,071,249	1,376,607	1,280,538
Real estate	144,149	153,727	331,093	339,668
	<u>\$ 5,671,538</u>	<u>\$ 6,016,432</u>	<u>\$ 6,174,258</u>	<u>\$ 5,858,014</u>

**CHARLESTON LIBRARY SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**2. Investments (continued)**

Investment Maturities

To meet the operational and capital needs of The Charleston Library Society, the Board of Trustees has elected to adopt a spending policy for the withdrawal of funds for budgetary needs. The Board meets annually to review the costs of operation, portfolio values, total return of the Endowment and Restricted funds and determine a spending rate to be applied in the current year of operation. On average, the spending rate is expected to range from 4% to 10% per year. Once the spending rate for the current year is established, it will be multiplied against the 3 year rolling average market value of the base. The base will include the endowment assets, operating funds and the Jockey/Ross funds as of December 31. The Board may also elect to establish a fixed dollar amount as the spending requirement for any fund. The Board has elected to withdrawal \$295,000 from investments for the 2019 budget.

Maturities for the above listed investments are as follows:

<u>Maturity Range in Years</u>	<u>2018</u>	<u>2017</u>
3 months - 1 year	\$ 147,414	\$ 259,980
Spending policy, current	295,000	300,000
Mutual funds, long-term	-	-
Bonds, long-term	1,348,865	1,428,782
Equities, long-term	3,736,110	3,854,403
Real estate funds, long-term	<u>144,149</u>	<u>331,093</u>
 Total investments	 <u>\$ 5,671,538</u>	 <u>\$ 6,174,258</u>

The following schedule summarizes the investment return in the statement of activities for the years ended December 31 :

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 6,174,258	\$ 5,839,307
Donations awaiting transfer	199,192	-
Interest	31,632	30,874
Dividends	278,981	165,804
Management fees	(37,626)	(48,355)
Realized gains (losses)	41,220	90,551
Unrealized gains (losses)	(716,119)	371,077
Transfers to operating	<u>(300,000)</u>	<u>(275,000)</u>
 Ending investment balance	 <u>\$ 5,671,538</u>	 <u>\$ 6,174,258</u>



**CHARLESTON LIBRARY SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

---

**3. Summary of Fair Value Exposure**

ASC 820 defines fair value as the amount that would be received from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants, i.e. an exit price. To estimate an exit price, a three-tier hierarchy is used to prioritize the inputs:

Level 1: Quoted prices in active markets for identical securities

Level 2: Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spreads, credit risk, etc.)

Level 3: Significant unobservable inputs (including the Society's own assumptions in determining the fair value of investments)

The following methods and assumptions were used to estimate the fair values of the assets and liabilities in the table above.

***Level 1: Fair Value Measurements***

Investments in Mutual funds and Securities - The fair value of the Society's investments in mutual funds and marketable equity and debt securities is based on quoted market prices.

***Level 2: Fair Value Measurements***

Investments other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

***Level 3: Fair Value Measurements***

These investments have no observable inputs for the asset or liability. There are no level 3 investments.

The inputs and methodology used for valuing the Society's financial assets and liabilities are not indicators of the risks associated with those instruments.

**CHARLESTON LIBRARY SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**3. Summary of Fair Value Exposure (continued)**

The following table provides fair value measurement information for financial assets and liabilities measured at fair value on a recurring basis:

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Money Market	\$ 442,414	\$ -	\$ -	\$ 442,414
Mutual Funds/Securities	3,736,110	-	-	3,736,110
Real asset funds	-	144,149	-	144,149
Bonds	-	1,348,865	-	1,348,865
	\$ 4,178,524	\$ 1,493,014	\$ -	\$ 5,671,538

  

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Money Market	\$ 259,980	\$ -	\$ -	\$ 259,980
Mutual Funds/Securities	4,154,403	-	-	4,154,403
Real asset funds	-	331,093	-	331,093
Bonds	-	1,428,782	-	1,428,782
	\$ 4,414,383	\$ 1,759,875	\$ -	\$ 6,174,258

**4. Restrictions on Net Assets**

**Capital Campaign**

In 2017, the Society began a campaign to renovate and upgrade their facilities at 164 King Street. The Society solicited contributions for those costs through a capital campaign called "The Next Chapter". Contributions raised through the capital campaign are restricted to payment of the expenses associated with the repair and upgrade on the facilities and repayment of the line of credit. Those restrictions are considered to expire when payments are made.

**Hinson Fund**

The earnings on these funds have been identified by the donor as restricted and are to be used for the preservation and restoration of the Hinson collection.

Net assets with donor restrictions are available for the following purposes or periods:

Purpose	Beginning Balance Dec. 31, 2017	Contributions Gains Investment Income	Disburse- Ments	Realized and Unrealized Gains	Ending Balance Dec. 31, 2018
Purchase and restore library***	\$ 1,491,700	\$ 58,483	\$ (60,696)	\$ (163,056)	\$ 1,326,431
Capital Campaign	474,765	2,089,817	(945,419)	-	1,619,163
Hinson Fund	16,000	-	-	-	16,000
	\$ 1,982,465	\$ 2,148,300	\$ (1,006,115)	\$ (163,056)	\$ 2,961,594

**CHARLESTON LIBRARY SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**4. Restrictions on Net Assets - continued**

Purpose	Beginning Balance Dec. 31, 2016	Contributions Gains Investment Income	Disburse- Ments	Realized and Unrealized Gains	Ending Balance Dec. 31, 2017
Purchase and restore library***	\$ 1,410,703	\$ 30,092	\$ (60,624)	\$ 111,529	\$ 1,491,700
Capital Campaign	125,074	630,240	(280,549)	-	474,765
Hinson Fund	<u>16,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,000</u>
	<u>\$ 1,551,777</u>	<u>\$ 660,332</u>	<u>\$ (341,173)</u>	<u>\$ 111,529</u>	<u>\$ 1,982,465</u>

\*\*\* Equals the Ross/Jockey fund in Trust.

**5. Liquidity and Availability of Financial Assets**

The following reflects the Society's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

	<u>2018</u>	<u>2017</u>
Financial assets at year-end	\$ 7,242,556	\$ 6,891,618
Less those unavailable for general expenditures within one year, due to:		
Donor-restricted capital campaign funds	1,619,163	474,765
Donor-restricted to preserve Hinson collection	16,000	16,000
Board-restricted to maintain investments	<u>5,161,346</u>	<u>5,858,258</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 446,047</u>	<u>\$ 542,595</u>

**6. Property and equipment**

Property and equipment consist of the following:

	<u>2018</u>	<u>2017</u>
Buildings	\$ 2,300,712	\$ 2,300,712
Construction in process	869,244	308,787
Furniture and fixtures	185,081	109,228
Office equipment	<u>135,003</u>	<u>135,003</u>
	3,490,040	2,853,730
Less accumulated depreciation	<u>(1,083,894)</u>	<u>(962,611)</u>
Property & Equipment, net of depreciation	<u>\$ 2,406,146</u>	<u>\$ 1,891,119</u>

Depreciation expense is \$121,283 and \$98,145 for the years ending December 31, 2018 and 2017, respectively.

**7. Revolving Line of Credit**

**CHARLESTON LIBRARY SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

---

In May 2017 the Society entered into a line of credit agreement with South State Bank to finance the Phase I construction improvements of the Society's building at 164 King Street Charleston, South Carolina. Under this agreement the Society can borrow up to a total of \$1,500,00, with interest payable monthly at lender's prime rate (5.58% at December 31, 2018). The line of credit is secured by the Society's "Campaign Bank Account" held at South State Bank and assignment of all pledges receivable and future campaign funds received. The credit line matures June 14, 2019. The balances on the line of credit as of December 31, 2018 and 2017, were \$550,694 and \$550,694, respectively

**8. Collections**

The Society follows the Financial Accounting Standards Board FASB ASC 958-360-50, collection items acquired either through purchase or donations are not capitalized. Purchases of collection items are recorded as decreases in unrestricted net assets if purchased with unrestricted funds and as decreases in temporarily restricted net assets if purchased with donor-restricted funds. Contributions of collection items are not recorded in the statements of activities. There were no purchases or donations of museum collection items for the years ended December 31, 2018 and 2017. The collection contains historically significant original letters and legal documents that are considered priceless and are maintained in a vault and bound in a light protected environment.

**9. Concentration of Credit Risk**

Financial instruments that potentially subject the Society to concentrations of credit risk consist of cash in banks and investments managed by brokerage firms.

The cash in the banks are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Society's uninsured cash balances as of December 31, 2018 and 2017, were \$1,340,417 and \$30,942, respectively

The Society has credit risk in the investment funds managed by a trust department. The trust department holds these funds in a fiduciary capacity and they are not held as collateral for the trustee's creditors. Credit risk is managed by investment policies.

**CHARLESTON LIBRARY SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

---

**10. Operating Lease Commitment**

The Society leases office equipment under an agreement that expires December 2023 which requires the Society to pay sales tax and usage fees in addition to the monthly base rent of \$334.

Future minimum lease payments at December 31, 2018 are as follows:

Year ending December 31,		
2019	\$	4,012
2020		4,012
2021		4,012
2022		4,012
2023		3,678
Thereafter		-
	\$	<u>19,726</u>

**11. Retirement Plan**

The Society has a qualified retirement plan under IRS Code 403(b) for all full-time employees. Eligible employees may contribute up to 100 percent of pretax annual compensation, as defined by the Plan. Participants who have attained age 50 before the end of the Plan year are eligible to make catch-up contributions. The Society contributes a matching contribution to eligible employees as defined in the Plan document. The matching contribution to the Plan is equal to 6 percent of the eligible participant's compensation, as defined, for those participant's contributing at least 6 percent of compensation. Contributions are subject to Internal Revenue Service limitations. The Society's retirement expense for the years ended December 31, 2018 and 2017 were \$31,894 and \$18,140, respectively.

**12. Subsequent Events**

Management has evaluated subsequent events through May 10, 2019, the financial report date, and has concluded no significant subsequent events meet the criteria of professional accounting standards to be recognized or disclosed in the financial statements.

**SUPPLEMENTARY INFORMATION**

**CHARLESTON LIBRARY SOCIETY**  
**SCHEDULE I - COMPARISON OF ACTUAL TO BUDGETED**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Actual</u>	<u>Unaudited Budget</u>	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Contributions	\$ 2,640,078	\$ 625,750	\$ 2,014,328
Grants	38,150	37,250	900
Program Income	220,550	181,500	39,050
Rental Income	59,516	74,000	(14,484)
Transfer from Endowment	300,000	300,000	-
	<u>\$ 3,258,294</u>	<u>\$ 1,218,500</u>	<u>\$ 2,039,794</u>
<b>Expenses</b>			
Advertising	6,163	40,000	33,837
Adult programs	70,079	40,000	(30,079)
Bank charges	5,592	-	(5,592)
Books	10,909	25,000	14,091
Development	44,595	40,000	(4,595)
Employee benefits	52,451	54,000	1,549
Depreciation	121,283	-	(121,283)
Fundraising expenses	18,104	-	(18,104)
Insurance	61,875	40,000	(21,875)
Miscellaneous expenses	17,492	16,000	(1,492)
Periodicals	3,642	-	(3,642)
Professional fees	15,435	18,000	2,565
Newsletter	13,602	12,000	(1,602)
Professional development	4,417	14,500	10,083
Restoration	42,054	20,000	(22,054)
Retirement	31,894	35,000	3,106
Maintenance	64,153	50,000	(14,153)
Salaries	703,398	670,000	(33,398)
Supplies	12,333	14,000	1,667
Taxes	7,019	7,000	(19)
Taxes	53,267	37,000	(16,267)
Minor equipment	27,216	24,000	(3,216)
Travel	22	-	(22)
Utilities	55,022	62,000	6,978
Video	6,395	-	(6,395)
	<u>1,448,412</u>	<u>1,218,500</u>	<u>(229,912)</u>
<b>Excess of Revenues Over Expenses</b>	<u>\$ 1,809,882</u>	<u>\$ -</u>	<u>\$ 1,809,882</u>