

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

FINANCIAL REPORT

June 30, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Alleghany Highlands Regional Library, Inc.
Covington, Virginia

I have audited the accompanying general purpose financial statements of Alleghany Highlands Regional Library, Inc. as of June 30, 2019 and 2018 and for the years then ended, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

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

My responsibility is to express an opinion on these financial statements based on my audits. I conducted the audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that I plan and perform the audits 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

INDEPENDENT AUDITOR'S REPORT
(continued)

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alleghany Highlands Regional Library, Inc., as of June 30, 2019 and 2018, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and the pension trend information on pages 26 through 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during the audit of the basic financial statements.

I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated November 12, 2019, on my consideration of the Alleghany Highlands Regional Library's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Alleghany Highlands Regional Library's internal control over financial reporting and compliance.

Yisa H. Amantout, CPA

Covington, Virginia
November 12, 2019

Alleghany Highlands Regional Library, Inc.

REGIONAL LIBRARY SERVICE

406 WEST RIVERSIDE STREET
COVINGTON, VA 24426
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MANAGEMENT DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2019

Our discussion and analysis of Alleghany Highlands Regional Library, Inc. financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2019. Please read this information in conjunction with the Library's financial statements.

FINANCIAL HIGHLIGHTS

Alleghany Highlands Regional Library's financial statements are reported on the full accrual basis as required by GASB Statement 34. On this basis, the Library reported total revenues of \$484,636 and expenditures of \$387,116, resulting in an increase in net assets of \$97,520 for the year ended June 30, 2019.

Local funding for operations increased by 5.87% for the City of Covington and increased by 2.03% for Alleghany County from the prior year. Also, the City of Covington awarded \$14,100 and the County of Alleghany awarded \$15,900 for capital projects during the fiscal year ended June 30, 2019. State funding increased by 7.11% percent.

The Library's net assets totaled \$1,566,592, of which \$416,757 is available to spend at the discretion of the Library's Board of Trustees. The Library had no debt at June 30, 2019.

It is important to note that, in accordance with statements issued by the Governmental Accounting Standards Board, the financial information presented for the Library includes two additional legally separate but financially related entities. These entities are The Alleghany Highlands Regional Library Foundation and the Friends of the Library. Details of the financial positions and results of operations of these entities are presented in financial statement Notes 8 and 9.

BASIC FINANCIAL STATEMENTS

The basic financial statements report information about the Library using accounting methods similar to those used by private-sector companies. One of the most important questions asked about the Library's finances is "Is the Library better or worse off as a result of the year's activities?" The Library presents three basic financial statements to help answer this question. These are (1) a Statement of Net Assets; (2) a Statement of Revenues, Expenses and Changes in Net Assets; and (3) a Statement of Cash Flows.

These statements report the Library's net assets and changes in them. The Statement of Net Assets reports the balances left at year-end that are available for spending and any restrictions that apply to those balances. Increases and decreases to these balances are reflected in the Statement of Revenues, Expenses and Changes in Net Assets. The Statement of Cash Flows identifies the changes in the cash balances of the Library and reconciles the change in net assets to the cash flows provided and used by the Library.

Alleghany Highlands Regional Library, Inc.
MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2019

FINANCIAL ANALYSIS

FINANCIAL POSITION-A summary of the Library's Statement of Net Assets for the years ended June 30, 2019 and 2018 is presented below:

Condensed Statement of Net Assets

	<u>2019</u>	<u>2018</u>
Current Assets	\$ 263,131	\$ 289,280
Property and Equipment	947,546	863,725
Investments	415,791	393,885
Deferred Pension Experience Difference	5,502	13,945
Deferred Pension Contributions	<u>7,555</u>	<u>19,290</u>
Total Assets	<u>\$1,639,525</u>	<u>\$1,580,125</u>
Current Liabilities	\$ 2,432	\$ 4,411
Net Pension Liability	60,212	65,135
Deferred Pension Investment Experience	<u>10,289</u>	<u>41,507</u>
Total Liabilities	<u>\$ 72,933</u>	<u>\$ 111,053</u>
Net Assets:		
Board Designated	\$ 224,462	\$ 224,462
Invested in Capital Assets	947,546	863,725
Unappropriated	<u>192,295</u>	<u>134,732</u>
Total Unrestricted Net Assets	<u>\$1,364,303</u>	<u>\$1,222,919</u>
Restricted for Building Expansion	<u>\$ 202,289</u>	<u>\$ 246,153</u>
Total Net Assets	<u>\$1,566,592</u>	<u>\$1,469,072</u>
Total Liabilities and Net Assets	<u>\$1,639,525</u>	<u>\$1,580,125</u>
Quick Ratio (Current Assets/Current Liabilities)	108:1	66:1

CHANGE IN NET ASSETS-A summary of the Library's statements of revenues, expenses and changes in net assets for the years ended June 30, 2019 and 2018 is presented below.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	<u>2019</u>	<u>2018</u>
Operating Income	\$ 11,451	\$ 12,323
Operating Expenses	<u>387,116</u>	<u>373,746</u>
Operating Income (Loss)	\$ (375,665)	\$ (361,423)
Non-Operating Income	<u>473,185</u>	<u>379,502</u>
Change in Net Assets	<u>\$ 97,520</u>	<u>\$ 18,079</u>

The operating income of the Library consists of fines, fees, and other charges for services to Library patrons. Operating income has decreased 7.08% percent from 2018 to 2019.

Operating expenses are the direct expenses incurred in the operation of the Library, including salaries and benefits, library books and materials, utilities, and depreciation. (See the Statements of Revenues, Expenses and Changes in Net Assets for detail and amounts of these operating expenses.) From 2018 to 2019, operating expenses increased mainly due to an increase in depreciation expense of \$5,995 and an increase in maintenance and repairs expense of \$11,541. Other operating expenses remained fairly consistent with an overall decrease of 1.38% from 2018 to 2019.

Alleghany Highlands Regional Library, Inc.
MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2019

Non-operating income includes appropriations and grants from state and local governments, contributions and grants from foundations, individuals and businesses, and return on investments. Non-operating income increased in the amount of \$93,683 from 2018 to 2019, mainly due to foundation grants totaling \$56,500 and investment return totaling \$28,506. The following table details the percentage of the non-operating income by source.

	<u>2019</u>	<u>2018</u>
Commonwealth of Virginia	15.71	18.28
Local governments	61.46	76.96
Contributions, grants, and other income	16.81	5.58
Investment return	<u>6.02</u>	<u>(.82)</u>
Total non-operating income	100.00	100.00

Net assets increased \$97,520 in 2019 as compared to an increase of \$18,079 in 2018. The main reason for the increase in 2019 was the purchase of capital assets and improvements with local government and foundation grant revenue totaling \$86,500. The purchase of capital assets and improvements totaling \$138,524 was not reflected in the Statements of Revenues, Expenses, and Changes in Net Assets. A major component of the change in net assets for both years was depreciation expense, which totaled \$54,703 and \$48,708 for 2019 and 2018, respectively.

CASH FLOWS-A summary of the Library's statements of cash flows for the years ended June 30, 2019 and 2018 is presented below.

Condensed Statements of Cash Flows

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities	\$ (338,762)	\$ (329,327)
Cash flows from non-capital activities	383,101	340,838
Cash flows from capital activities	(78,524)	16,662
Cash flows from capital investing activities	<u>5,802</u>	<u>(398,795)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (28,383)	\$ (370,622)
Cash, Beginning of Year	<u>286,665</u>	<u>657,287</u>
Cash, End of Year	<u>\$ 258,282</u>	<u>\$ 286,665</u>

Cash flows from operating activities represent the change in net assets adjusted for any non-cash transactions and any changes in asset and liability accounts. One major element of non-cash transactions is depreciation. Cash flows from non-capital activities consist of the elements of non-operating income. Cash flows from capital activities include fixed asset purchases by the Library. Cash flows from investing activities are made up of interest income and any transactions involving investments, including certificates of deposit. (See the Statements of Cash Flows for detail and amounts of cash flow transactions.)

During 2019, there was a decrease in cash and cash equivalents in the amount of \$28,383, mainly due to the purchase of capital assets and improvements totaling \$138,574, offset partly by capital grant funding totaling \$60,000 and depreciation expense totaling \$54,703. During 2018, there was a decrease in cash and cash equivalents of \$370,622, resulting mainly from the purchase of investments totaling \$398,795 during the fiscal year. This decrease was somewhat mitigated by the add-back of depreciation expense totaling \$48,708.

BUDGETARY HIGHLIGHTS

The Library prepares a budget each year broken down into local and state revenues and expenditures. The original state revenue budget must be approved by the state. Also, any revisions exceeding ten percent of the original budget categories must be submitted for approval. The local budgets are prepared based on the amounts allocated to the Library by the local governing bodies.

Alleghany Highlands Regional Library, Inc.
MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2019

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

As of June 30, 2019, the Library has net fixed assets of \$947,546. The original cost of these assets is \$2,154,702 and the accumulated depreciation on these assets is \$1,207,156. (See Note 2 to the financial statements for further detail.) Of the total fixed assets, land and buildings account for 74%, equipment accounts for 15%, and furniture and fixtures account for 11%.

The Library initiated a building maintenance project in the fiscal year ending June 30, 2018 with an estimated cost of \$158,500. The project entailed the total replacement of the current roofing system and the replacement of nine HVAC units and was completed in the fiscal year ending June 30, 2019. Due to the age of the units (15 years), the expiration of the warranty on the roof, and the ongoing maintenance issues that have arisen from these components, it was considered necessary to complete this replacement project in order to provide a safe, comfortable and enriching environment for Library patrons.

The Library obtained total local government funding in the amount of \$71,000, an Alleghany Foundation grant in the amount of \$30,000, and Nettleton Foundation grants totaling \$26,000 to use toward the completion of the project.

DEBT ADMINISTRATION

The Library has no debt as of June 30, 2019 and 2018.

ECONOMIC FACTORS

State and local revenues typically account for approximately 95% of the revenue of the Library. In 2019 this percentage was 77% due to additional grant funding and an increase in investment return. The Library continues to work with governmental agencies to obtain increased funding to cover increased costs associated with the building expansion. For FY 2020, the Library will receive a funding increase from Alleghany County of 1.99% and level funding from the City of Covington. State revenue will increase by 2.26%. The Library has managed to keep the majority of operating expenses fairly level with prior years.

CONTACTING THE LIBRARY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, patrons, and funding sources with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. Questions concerning this report or requests for additional information should be made directly to Lisa N. Hicks, Library Director, 406 W. Riverside Street, Covington, Virginia 24426 (Telephone (540) 962-3321).

ALLEGHANY HIGHLANDS REGIONIAL LIBRARY, INC.

STATEMENTS OF NET ASSETS

June 30, 2019 and 2018

ASSETS	2019	2018
CURRENT ASSETS		
Cash including interest bearing accounts of \$232,537 in 2019, and \$258,507 in 2018	\$ 258,282	\$ 286,665
Daily cash receivable	<u>4,849</u>	<u>2,615</u>
	<u>\$ 263,131</u>	<u>\$ 289,280</u>
PROPERTY AND EQUIPMENT	<u>\$ 947,546</u>	<u>\$ 863,725</u>
INVESTMENTS	<u>\$ 415,791</u>	<u>\$ 393,885</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred difference in pension experience	\$ 5,502	\$ 13,945
Deferred pension contributions	<u>7,555</u>	<u>19,290</u>
	<u>\$ 13,057</u>	<u>\$ 33,235</u>
Total assets	<u>\$1,639,525</u>	<u>\$1,580,125</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 1,579	\$ 2,361
Accrued payroll	<u>853</u>	<u>2,050</u>
	<u>\$ 2,432</u>	<u>\$ 4,411</u>
NONCURRENT LIABILITIES		
Net pension liability	\$ 60,212	\$ 65,135
	<u>\$ 60,212</u>	<u>\$ 65,135</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred pension investment experience	\$ 10,289	\$ 41,507
	<u>\$ 10,289</u>	<u>\$ 41,507</u>
Total liabilities	<u>\$ 72,933</u>	<u>\$ 111,053</u>
NET ASSETS		
Unrestricted:		
Designated for investment	\$ 163,177	\$ 163,177
Designated for building	61,285	61,285
Invested in building	947,546	863,725
Unappropriated	<u>192,295</u>	<u>134,870</u>
Total unrestricted	<u>\$1,364,303</u>	<u>\$1,223,057</u>
Restricted for building expansion and capital projects	<u>202,289</u>	<u>246,015</u>
	<u>\$1,566,592</u>	<u>\$1,469,072</u>
Total liabilities and net assets	<u>\$1,639,525</u>	<u>\$1,580,125</u>

See Notes to Financial Statements.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenue:		
Fees and fines	\$ 11,451	\$ 12,323
Expenses:		
Library books and materials	\$ 59,154	\$ 59,345
Salaries and wages	156,416	157,660
Payroll taxes	11,949	12,131
Retirement plan	(8,408)	(991)
Employee benefits	6,050	2,242
Insurance	6,009	5,987
Utilities	17,858	17,772
Internet access	2,495	2,000
Computer service and support	4,695	3,462
Computer equipment and supplies	1,410	3,167
Depreciation	54,703	48,708
Maintenance and repairs	35,155	23,614
Programs	4,921	5,212
Contractual services	14,808	14,978
Supplies and postage	10,992	10,693
Legal and professional expense	4,875	4,000
Miscellaneous	993	859
Employee travel and training	597	383
Membership dues	1,093	642
Advertising and public relations	1,351	1,882
Total expenses	<u>\$ 387,116</u>	<u>\$ 373,746</u>
Operating income (loss)	<u>\$ (375,665)</u>	<u>\$ (361,423)</u>
Non-operating revenue:		
State aid	\$ 74,317	\$ 69,385
Local aid – City of Covington	142,590	144,371
Local aid – Alleghany County	148,238	147,704
Alleghany Foundation grant	30,000	-
E-Rate reimbursement	2,264	2,567
Contributions and bequests	38,327	11,587
Contributed services	2,376	2,574
Friends of the Library revenue	6,567	4,442
Investment return	28,506	(3,128)
Total non-operating revenue	<u>\$ 473,185</u>	<u>\$ 379,502</u>
Change in net assets	\$ 97,520	\$ 18,079
Net assets, beginning of year	<u>1,469,072</u>	<u>1,450,993</u>
Net assets, ending of year	<u>\$1,566,592</u>	<u>\$1,469,072</u>

See Notes to Financial Statements.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from patrons	\$ 9,217	\$ 9,708
Payments to suppliers	(164,812)	(151,966)
Payments to and for employees	(183,167)	(187,069)
Net cash provided (used) by operating activities	<u>\$ (338,762)</u>	<u>\$ (329,327)</u>
CASH FLOWS FROM NONCAPITAL ACTIVITIES		
Government appropriations	\$ 335,145	\$ 320,460
Other	47,956	20,378
Net cash provided (used) by noncapital activities	<u>\$ 383,101</u>	<u>\$ 340,838</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Grants for capital projects	\$ 60,000	\$ 41,000
Purchase of property and equipment	(138,524)	(24,338)
Net cash provided (used) by capital financing activities	<u>\$ (78,524)</u>	<u>\$ 16,662</u>
CASH FLOWS FROM CAPITAL INVESTING ACTIVITIES		
Investment return	\$ 12,758	\$ 3,048
Maturity of investments	132,819	-
Purchase of investments	(139,775)	(401,843)
Net cash provided (used) by capital investing activities	<u>\$ 5,802</u>	<u>\$ (398,795)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>\$ (28,383)</u>	<u>\$ (370,622)</u>
CASH AND CASH EQUIVALENTS:		
Beginning	<u>286,665</u>	<u>657,287</u>
Ending	<u>\$ 258,282</u>	<u>\$ 286,665</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	<u>\$ (375,665)</u>	<u>\$ (361,423)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	\$ 54,703	\$ 48,708
Deferred pension contributions	(15,963)	(16,502)
Contributed services	2,376	2,574
(Increase) decrease in:		
Daily cash receivable	(2,234)	(2,615)
Increase (decrease) in:		
Accounts payable	(782)	(544)
Accrued payroll	(1,197)	475
Total adjustments	<u>\$ 36,903</u>	<u>\$ 32,096</u>
Net cash provided (used) by operating activities	<u>\$ (338,762)</u>	<u>\$ (329,327)</u>

See Notes to Financial Statements.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities:

Alleghany Highlands Regional Library, Inc., formerly the Charles Pinckney Jones Memorial Library, Inc., is a nonprofit corporation organized under the laws of the Commonwealth of Virginia. The Organization is a public library providing services to the City of Covington and Alleghany County. The Organization is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code.

A summary of the Library's significant accounting policies follows:

Reporting entity:

The Charles P. Jones Memorial Library Foundation, Inc., a 501(c)(3) corporation, was established to provide support for programs and services of Alleghany Highlands Regional Library, Inc. and to support the further expansion and growth of the Library by seeking financial contributions from corporate, foundation and private sources. While the Foundation is a legally separate organization, the organizations share essentially the same governing board and the Foundation will provide financial support solely to the Library. The Library initially transferred restricted and board designated expansion funds to the Foundation to maintain accountability for contributions from private sources. Revenue and expenses of this organization are included in the financial statements for the years ended June 30, 2019 and 2018. (See Note 8.)

Friends of the Library is a nonprofit volunteer organization that exists exclusively to support the Library through promotional activities and special fundraising events. The Organization's revenue is comprised of membership dues and profits from various fundraising events. Revenue and expenses of this Organization are included in the financial statements for the years ended June 30, 2019 and 2018. (See Note 9.)

Cash and cash equivalents:

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

Investments:

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Short-term investments consist of debt securities with original maturities of twelve months or less. Long-term investments consist of debt securities with original maturities greater than twelve months.

Property and equipment:

Purchased property and equipment are capitalized and valued at historical cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair market value at the date of donation. Assets are depreciated using the straight-line method based on estimated lives as follows:

	<u>Years</u>
Buildings and improvements	10- 40
Land improvements	15
Furniture and fixtures	5-10
Equipment	5

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Revenue recognition:

Grant revenue is recognized when the related costs are incurred. Deferred revenue consists of grant funds that the Library has received but for which it has not incurred related expenses. Revenue from local governments is recorded in the period designated by the local governmental budget. Contributions from the general public are recognized when any applicable eligibility requirements are met, or when received, whichever is earlier. Contributions of donated noncash assets are recorded at their fair values in the period received.

Contributed Services

Contributed services from computer technicians and other professional services are reported at the fair market value of the service. In addition, a substantial number of unpaid volunteers have made significant contributions of their time to the Library's programs. The value of this contributed time is not recognized in the financial statements since it is not susceptible to objective measurement or valuation.

Pensions:

The Virginia Retirement System (VRS) Political Subdivision Retirement Plan is a multi-employer, agent plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Library's Retirement Plan and the additions to/deductions from the Library's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Budgets and budgetary accounting:

The Library annually prepares a budget based on the funding notifications received from the Library of Virginia, the City of Covington and the County of Alleghany. The initial budget, as well as later amendments, for expenditures of state funds must be approved by The Library of Virginia.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from the estimates that were used.

Risk management:

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters at a cost considered to be economically justifiable. Settled claims have not exceeded this coverage in any of the preceding three years.

Income taxes:

The Library is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. The Library's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ended June 30, 2019, 2018, and 2017 are subject to examination by the IRS, generally for three years after they are filed.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Date of management's review:

In preparing the financial statements, the Library has evaluated events and transactions for potential recognition or disclosure through November 12, 2019, the date that the financial statements were available to be issued.

Note 2. Property and Equipment

A summary of the Library's property and equipment follows:

	2019	2018
Land	\$ 19,300	\$ 19,300
Building and improvements	1,574,430	1,440,380
Furniture and fixtures	248,213	248,213
Equipment	312,759	308,285
	<u>\$2,154,702</u>	<u>\$2,016,178</u>
Less accumulated depreciation	1,207,156	1,152,453
	<u>\$ 947,546</u>	<u>\$ 863,725</u>

Note 3. Retirement Plan

Plan Description

All full-time, salaried permanent employees of the Library are automatically covered by a VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out below.

Retirement Plan Provisions

Plan 1

Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP. Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment. Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

Note 3. Retirement Plan (continued)

Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.

The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit. A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee. The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70% and the normal retirement age is 65. The earliest unreduced retirement eligibility is age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. The earliest reduced retirement eligibility is age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.

The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

For members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. Virginia Sickness and Disability Program (VSDP) members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

Note 3. Retirement Plan (continued)

Plan 2

Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010 and they were not vested as of January 1, 2013. Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP. Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.

The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit. A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee. The service retirement multiplier is the same as Plan 1 (1.70%) for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. The normal retirement age is the normal social security retirement age. The earliest unreduced retirement eligibility is the normal social security retirement age with at least five years (60 months) of creditable service or when age and service equal 90. The earliest reduced retirement eligibility is age 60 with at least five years (60 months) of creditable service.

The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%) for a maximum COLA of 3%. For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

Note 3. Retirement Plan (continued)

The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

For members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

Hybrid Retirement Plan

The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members")

- The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.
- The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
- In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses and any required fees.

Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- Political subdivision employees other than hazardous duty employees who are covered by enhanced benefits.
- Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 – April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

Note 3. Retirement Plan (continued)

A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan and the employer is required to match those voluntary contributions according to specified percentages.

Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

For the defined benefit component, the Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit. A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee. The retirement multiplier for the defined benefit component is 1.00%. The normal retirement age is the normal social security retirement age. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. The earliest unreduced retirement eligibility is the normal social security retirement age with at least five years (60 months) of creditable service or when the age and service equal 90. The earliest reduced retirement eligibility is age 60 with at least five years (60 months) of creditable service. The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%) for a maximum COLA of 3%. For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

Note 3. Retirement Plan (continued)

Employees of political subdivisions (including Plan 1 and Plan 2 op-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits. Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay. The following exceptions apply:

- Hybrid Retirement Plan members are ineligible for ported service.
- The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.
- Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.

For the defined contribution component, the benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions. Members are eligible to receive distributions upon leaving employment, subject to restrictions. Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan. Defined contributions vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make.

Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

- After two years, a member is 50% vested and may withdraw 50% of employer contributions.
 - After three years, a member is 75% vested and may withdraw 75% of employer contributions.
 - After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.
- Distribution is not required by law until age 70 ½.

Employees Covered by Benefit Terms

As of the June 30, 2018 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

Inactive members or their beneficiaries currently receiving benefits	3
Inactive members:	
Vested inactive members	0
Non-vested Inactive members	0
Active elsewhere in VRS	1
Total inactive members	1
Active members	2
Total covered employees	6

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

Note 3. Retirement Plan (continued)

Contributions

The contribution requirement for active employees is governed by 51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement.

The Library's contractually required contribution rate for the year ended June 30, 2019 was 9.29% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

This rate, when combined with employee contributions was expected to finance the costs of benefits earned by the employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Library were \$7,555 and \$15,511 for the years ended June 30, 2019 and June 30, 2018, respectively.

Net Pension Liability

The Library's net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2017, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

Actuarial Assumptions

The total pension liability in the Library's Retirement Plan was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

Inflation	2.50 percent
Salary increases, including	
Inflation	3.50 percent – 5.35%
Investment rate of return	7.00 Percent, net of pension plan investment expense, including inflation*

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.00%. However, since the difference was minimal, and a more conservative 7.00% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.00% to simplify preparation of pension liabilities.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

Note 3. Retirement Plan (continued)

Mortality rates:

Largest 10 – Non-Hazardous Duty: 20% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020 with males set forward 2 years, 110% of rates; females 125% of rates.

All Others (Non 10 Largest) – Non-Hazardous Duty: 15% of deaths are assumed to be service Related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020 with males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-Hazardous Duty:

- Update to a more current mortality table-RP-2014 projected to 2020
- Decrease in rates of service retirement at older ages and change of final retirement from 70 to 75
- Adjustment in rates of withdrawal to better fit experience at each year age and service through 9 years of service
- Decrease in rates of disability retirement
- Increase rate for line of duty disability from 14% to 20%

All Others (Non 10 Largest) – Non-Hazardous Duty:

- Update to a more current mortality table-RP-2014 projected to 2020
- Decrease in rates of service retirement at older ages and change of final retirement from 70 to 75
- Adjustment in rates of withdrawal to better fit experience at each year age and service through 9 years of service
- Decrease in rates of disability retirement
- Increase rate for line of duty disability from 14% to 15%

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

Note 3. Retirement Plan (continued)

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	<u>100.00%</u>		<u>4.80%</u>
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.30%</u>

*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2018, the alternate rate was the employer contribution rate used in FY 2012 or 90% of the actuarially determined employer contribution rate from the June 30, 2015 actuarial valuations, whichever was greater. From July 1, 2018 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

Note 3. Retirement Plan (continued)

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2017	\$ 431,117	\$ 365,982	\$ 65,135
Changes for the year:			
Service cost	8,553		8,553
Interest	29,265		29,265
Changes in benefit terms	-		-
Changes of assumptions	-		-
Differences between expected and actual experience	9,006		9,006
Contributions – employer		19,289	(19,289)
Contributions – employee		5,359	(5,359)
Net investment income		27,356	(27,356)
Benefit payments, including refunds of employee contributions	(26,099)	(26,099)	-
Administrative expense		(233)	233
Other changes	-	(24)	24
Net changes	20,725	25,648	(4,923)
Balances at June 30, 2018	\$ 451,842	\$ 391,630	\$ 60,212

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the political subdivision using the discount rate of 7.00%, as well as what the political subdivision's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net pension liability	\$ 117,725	\$ 60,212	\$ 12,348

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

Note 3. Retirement Plan (continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2019, the Library recognized pension expense (benefit) of \$(8,408). At June 30, 2019, the Library reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,502	\$ 7,161
Change in assumptions	-	170
Net difference between projected and actual earnings on pension plan investments	-	2,958
Employer contributions subsequent to the measurement date	7,555	-
Total	<u>\$ 13,057</u>	<u>\$ 10,289</u>

The amount of \$7,555 reported as deferred outflows of resources related to pensions resulting from the Library's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30

2020	\$ (2,440)
2021	1,803
2022	(3,790)
2023	(360)
2024	-
Thereafter	-
	<u>\$ (4,787)</u>

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately Issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/PDF/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

Note 4. Major Sources of Support

The Library primarily receives support from the Commonwealth of Virginia, the City of Covington and the County of Alleghany and any significant reduction in the level of this support may have an adverse effect on the Library's operations.

State support must be expended in accordance with The Library of Virginia approved state aid budget, as detailed below:

	<u>Budget</u>	<u>Expenditures</u>
Books and Materials	\$ 57,148	\$ 57,148
Internet Access	2,495	2,495
Equipment	1,250	1,250
Furniture	-	-
Contractual Services	13,424	13,424
	<u>\$ 74,317</u>	<u>\$ 74,317</u>

Local support is appropriated by the City of Covington and Alleghany County through their annual budgets. Total governmental funding levels are expected to increase approximately 1.29% for the fiscal year ending June 30, 2020. Therefore, with the level of funding remaining low relative to operating expenses, the Library is continually reviewing its options for lowering operating expenses and/or obtaining other sources of financial support, mainly through foundation grants and local contributions.

Note 5. Investment Return

Investment return consists of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Interest earned on cash and certificates of deposit	\$ 3,454	\$ 1,782
Dividend income	10,102	3,040
Unrealized gain (loss) on investments	14,950	(7,950)
	<u>\$ 28,506</u>	<u>\$ (3,128)</u>

Note 6. Collections

In conformity with the practice followed by many libraries, books and materials purchased and donated are not included in the statement of net assets. The values of the existing inexhaustible collections are not readily determinable; therefore, the Library has not capitalized them. The Library believes that the net difference between capitalizing and depreciating collections and expensing the amounts paid for collections each year is not material to the financial position of the Library. During the years ended June 30, 2019 and 2018, purchase of books and materials totaled \$59,154 and \$59,345, respectively, and there were no proceeds from deaccessions in either year. Any proceeds from deaccessions are included in fees and fines revenue in the statement of support, revenues, expenses, and changes in net assets.

Note 7. Concentration of Credit Risk

At June 30, 2019, the carrying amount of the Library's cash accounts and certificates of deposit with financial institutions was \$257,765 and the bank balance was \$278,436. The total amount on deposit did not exceed the insurance limits of the Federal Deposit Insurance Corporation.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

Note 8. The Alleghany Highlands Regional Library Foundation

As explained in Note 1, The Alleghany Highlands Regional Library Foundation was established in order to maintain separate accountability for revenues received from nongovernmental funding sources. In 2001 the Library initiated a major building expansion and a corresponding fundraising drive. After the expansion was substantially completed, a balance of funds received from the public for the project and a balance of general contributions designated by the Library board for building expenditures remained in net assets. These funds were transferred to the Library Foundation and are used exclusively for building improvements and maintenance for the benefit of the Library. The details of net assets and revenues of the Library Foundation as of June 30, 2019 and 2018 that are included in the basic financial statements are presented below.

	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash-non-interest bearing	\$ 226	\$ 226
Cash-interest bearing accounts	232,537	256,682
Certificates of deposit	100,977	98,703
Mutual funds	103,006	98,166
Equities	211,807	197,016
Total assets	<u>\$ 648,553</u>	<u>\$ 650,793</u>
NET ASSETS		
Unrestricted:		
Designated for investment	\$ 163,177	\$ 163,177
Designated for building	61,285	61,285
Unappropriated	221,802	182,141
Total unrestricted	\$ 446,264	\$ 406,603
Restricted for building expansion	202,289	244,190
Total net assets	<u>\$ 648,553</u>	<u>\$ 650,793</u>
Non-operating revenue and expenses:		
Contributions and bequests	\$ 36,709	\$ 51,138
Alleghany Foundation grant	30,000	-
Investment return	28,505	(3,132)
Legal and professional expense	(667)	(667)
Supplies	(901)	(92)
License fee	(25)	(25)
Net revenue (expense)	\$ 93,621	\$ 47,222
Net assets, beginning of year	650,793	620,842
Less transfers to Library for asset expenditures	(95,861)	(17,271)
Net assets, end of year	<u>\$ 648,553</u>	<u>\$ 650,793</u>

Note 9. Friends of the Library

Friends of the Library revenue consists of the following for the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Membership dues	\$ 5,050	\$ 4,767
Fundraising revenues, net	1,517	(325)
Total revenue	<u>\$ 6,567</u>	<u>\$ 4,442</u>
Less expenses		
Supplies and postage	\$ 130	\$ 39
Miscellaneous	48	298
Electronic resources	1,414	-
Library programs	450	1,788
Total expenses	<u>\$ 2,042</u>	<u>\$ 2,125</u>
Net revenue	<u>\$ 4,525</u>	<u>\$ 2,317</u>

During the fiscal years ended June 30, 2019 and 2018, Friends of the Library donated \$4,750 and \$4,032, respectively, to the Library. These amounts have been eliminated in these blended financial statements.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

Note 10. Fair Value Measurements

The Alleghany Highlands Regional Library Foundation is required to report its fair value measurements in one of three levels, which are based on the ability to observe in the market place the inputs to the Foundation's valuation techniques. Level 1, the most observable level of inputs, is for investments measured at quoted prices in active markets for identical investments as of June 30, 2019. Level 2 is for investments measured using inputs such as quoted prices for similar assets, quoted prices for the identical asset in inactive markets, and for investments measured at net asset value that can be redeemed in near term. The Foundation uses a brokerage firm pricing service to price most of its level 2 investments. The service employs a proprietary market approach method that uses as inputs observed interest rates and yield curves, prices in active markets for similar assets, and prices for identical assets in active markets that have been adjusted by observable indexes. Level 3 is for investments measured using inputs that are unobservable, and is used in situations for which there is little, if any, independent market activity for the investment.

The following table summarizes the levels in the fair value hierarchy of the Foundation's Investments at June 30, 2019.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ 100,977	\$ -	\$ -	\$ 100,977
Mutual funds	103,006	-	-	103,006
Equities	<u>211,808</u>	<u>-</u>	<u>-</u>	<u>211,808</u>
Total	<u>\$ 415,791</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 415,791</u>

Note 11. Daily Cash Receivable

During the fiscal year ended June 30, 2019, the Library determined that certain cash funds were misappropriated by an employee of the Library. The amount, which has been estimated at \$4,849 over the course of two fiscal years, has been reclassified to a receivable account on the statement of net assets. The terminated employee pled guilty to the embezzlement and has agreed to pay restitution. At this time the Library does expect to receive restitution of these funds and no loss has been recorded in these financial statements. The potential loss will be re-evaluated prior to the June 30, 2020 fiscal year-end.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

SCHEDULE OF CHANGES IN NET PENSION
LIABILITY AND RELATED RATIOS
Year Ended June 30, 2019

	2018	2017	2016	2015	2014
Total pension liability					
Service cost	\$ 8,553	\$ 9,510	\$ 8,064	\$ 7,961	\$ 7,759
Interest	29,265	30,903	29,746	28,704	27,779
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience	9,006	(36,997)	7,342	5,799	-
Changes in assumptions	-	(880)	-	-	-
Benefit Payments, including refunds of employee contributions	(26,099)	(25,774)	(31,493)	(23,657)	(20,995)
Net change in total pension liability	\$ 20,725	\$ (23,238)	\$ 13,659	\$ 18,807	\$ 14,543
Total pension liability – beginning	431,117	454,355	440,696	421,889	407,346
Total pension liability – ending (a)	\$ 451,842	\$ 431,117	\$ 454,355	\$ 440,696	\$ 421,889
Plan fiduciary net position					
Contributions – employer	\$ 19,289	\$ 13,201	\$ 12,373	\$ 12,539	\$ 10,405
Contributions – employee	5,359	3,156	4,229	4,274	4,501
Net investment income	27,356	40,289	5,637	15,408	46,444
Benefit Payments, including refunds of employee contributions	(26,099)	(25,774)	(31,493)	(23,657)	(20,995)
Administrative expense	(233)	(236)	(219)	(214)	(253)
Other	(24)	(36)	(2)	(2)	3
Net change in plan fiduciary net position	\$ 25,648	\$ 30,600	\$ (9,475)	\$ 8,348	\$ 40,105
Plan fiduciary net position – beginning	365,982	335,382	344,857	336,509	296,404
Plan fiduciary net position – ending (b)	\$ 391,630	\$ 365,982	\$ 335,382	\$ 344,857	\$ 336,509
Net pension liability – ending (a) – (b)	\$ 60,212	\$ 65,135	\$ 118,973	\$ 95,839	\$ 85,380
Plan fiduciary net position as a percentage of the total pension liability	86.67%	84.89%	73.81%	78.25%	79.76%
Covered-employee payroll	\$ 88,469	\$ 95,700	\$ 90,850	\$ 85,476	\$ 90,017
Net pension liability as a percentage of covered-employee payroll	68.06%	68.06%	130.96%	112.12%	94.85%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

See Notes to Required Supplementary Information.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

SCHEDULE OF EMPLOYER CONTRIBUTIONS
Year Ended June 30, 2019

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2019	\$ 7,555	\$ 7,555	\$ -	\$ 82,417	9.29%
2018	\$ 15,511	\$ 15,511	\$ -	\$ 88,469	18.96%
2017	\$ 16,980	\$ 16,980	\$ -	\$ 95,700	18.96%
2016	\$ 12,373	\$ 12,373	\$ -	\$ 90,850	14.67%
2015	\$ 12,539	\$ 12,539	\$ -	\$ 85,476	14.67%
2014	\$ 10,405	\$ 10,405	\$ -	\$ 90,017	11.56%
2013	\$ 10,375	\$ 10,375	\$ -	\$ 89,749	11.56%
2012	\$ 8,780	\$ 8,780	\$ -	\$ 89,047	9.86%
2011	\$ 9,642	\$ 9,642	\$ -	\$ 97,789	9.86%
2010	\$ 8,538	\$ 8,538	\$ -	\$ 105,797	8.13%
2009	\$ 8,222	\$ 8,222	\$ -	\$ 101,124	8.13%

See Notes to Required Supplementary Information.

ALLEGHANY HIGHLANDS REGIONAL LIBRARY, INC.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2019

Changes of benefit terms –

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions –

The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 – Non-Hazardous Duty:

- Update to a more current mortality table-RP-2014 projected to 2020
- Decrease in rates of service retirement at older ages and change of final retirement from 70 to 75
- Adjustment in rates of withdrawal to better fit experience at each year age and service through 9 years of service
- Decrease in rates of disability retirement
- Increase rate for line of duty disability from 14% to 20%

All Others (Non10 Largest) – Non-Hazardous Duty:

- Update to a more current mortality table-RP-2014 projected to 2020
- Decrease in rates of service retirement at older ages and change of final retirement from 70 to 75
- Adjustment in rates of withdrawal to better fit experience at each year age and service through 9 years of service
- Decrease in rates of disability retirement
- Increase rate for line of duty disability from 14% to 15%

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Alleghany Highlands Regional Library, Inc.
Covington, Virginia

I have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the general purpose financial statements of the Alleghany Highlands Regional Library, Inc. as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Alleghany Highlands Regional Library, Inc.'s basic financial statements and have issued my report thereon dated November 12, 2019.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Alleghany Highlands Regional Library, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Alleghany Highlands Regional Library, Inc.'s internal control. Accordingly, I do not express an opinion on the effectiveness of the Alleghany Highlands Regional Library, Inc.'s internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

INDEPENDENT AUDITOR'S REPORT
(continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Alleghany Highlands Regional, Library, Inc.'s financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lisa H. Amant, CPA

Covington, Virginia
November 12, 2019