

DAUPHIN COUNTY LIBRARY SYSTEM

***YEARS ENDED
DECEMBER 31, 2015 AND 2014***

DAUPHIN COUNTY LIBRARY SYSTEM

YEARS ENDED DECEMBER 31, 2015 AND 2014

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Independent Auditors' Report

Board of Trustees
Dauphin County Library System
Harrisburg, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of Dauphin County Library System (the Library), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Library'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 Library'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 Dauphin County Library System as of December 31, 2015 and 2014 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 Supplemental Information

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

Brown Schultz Steidman & Fritz

Camp Hill, Pennsylvania
June 14, 2016

DAUPHIN COUNTY LIBRARY SYSTEM

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	\$ 4,971,662	\$ 5,406,104
Accounts receivable	575,901	120,818
Pledges receivable, net	37,266	750
Prepaid expenses	288,716	251,685
Fixed assets, net	14,175,134	14,478,502
Endowment funds held	2,036,828	2,159,002
Beneficial interests held by third parties	1,545,763	1,658,303
	<u>\$ 23,631,270</u>	<u>\$ 24,075,164</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 239,878	\$ 177,949
Accrued payroll, vacation, payroll taxes and withholdings	255,731	229,594
Deferred revenue	8,889	37,360
Capital lease obligations		6,749
Defined benefit pension plan obligation	1,545,758	1,355,142
Total liabilities	<u>2,050,256</u>	<u>1,806,794</u>
Net assets:		
Unrestricted	18,624,060	19,305,988
Temporarily restricted	471,275	406,576
Permanently restricted	2,485,679	2,555,806
Total net assets	<u>21,581,014</u>	<u>22,268,370</u>
	<u>\$ 23,631,270</u>	<u>\$ 24,075,164</u>

See notes to financial statements.

DAUPHIN COUNTY LIBRARY SYSTEM

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Operating support and revenue:				
Tax appropriations	\$ 5,904,396			\$ 5,904,396
Grants	200,501			200,501
Contributions	293,784	\$ 286,721	\$ 34,770	615,275
Operating revenue	230,506			230,506
Investment income	104,573	(86,441)		18,132
Change in the fair value of:				
Beneficial interests held by third parties		(7,643)	(104,897)	(112,540)
Endowment funds held	(86,290)			(86,290)
Net assets released, satisfaction of time and purpose restrictions	127,938	(127,938)		-
Total operating support and revenue	<u>6,775,408</u>	<u>64,699</u>	<u>(70,127)</u>	<u>6,769,980</u>
Operating expenses:				
Library services	6,132,710			6,132,710
Management and general	1,000,272			1,000,272
Fund-raising	61,973			61,973
Total operating expenses	<u>7,194,955</u>			<u>7,194,955</u>
Change in net assets before pension related changes other than net periodic pension costs	(419,547)	64,699	(70,127)	(424,975)
Pension related changes other than net periodic pension costs	<u>(262,381)</u>			<u>(262,381)</u>
Change in net assets	(681,928)	64,699	(70,127)	(687,356)
Net assets:				
Beginning of year	<u>19,305,988</u>	<u>406,576</u>	<u>2,555,806</u>	<u>22,268,370</u>
End of year	<u>\$ 18,624,060</u>	<u>\$ 471,275</u>	<u>\$ 2,485,679</u>	<u>\$ 21,581,014</u>

(continued)

DAUPHIN COUNTY LIBRARY SYSTEM

STATEMENTS OF ACTIVITIES (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2014			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Operating support and revenue:				
Tax appropriations	\$ 5,866,914			\$ 5,866,914
Grants	174,241			174,241
Contributions	247,413	\$ 132,317	\$ 27,682	407,412
Operating revenue	230,200			230,200
Investment income	181,203	28,986		210,189
Change in the fair value of:				
Beneficial interests held by third parties		(1,529)	(20,136)	(21,665)
Endowment funds held	(118,979)			(118,979)
Net assets released, satisfaction of time and purpose restrictions	106,926	(106,926)		-
Total operating support and revenue	6,687,918	52,848	7,546	6,748,312
Operating expenses:				
Library services	5,897,893			5,897,893
Management and general	933,775			933,775
Fund-raising	96,356			96,356
Total operating expenses	6,928,024			6,928,024
Change in net assets before pension related changes other than net periodic pension costs	(240,106)	52,848	7,546	(179,712)
Pension related changes other than net periodic pension costs	(742,506)			(742,506)
Change in net assets	(982,612)	52,848	7,546	(922,218)
Net assets:				
Beginning of year	20,288,600	353,728	2,548,260	23,190,588
End of year	<u>\$ 19,305,988</u>	<u>\$ 406,576</u>	<u>\$ 2,555,806</u>	<u>\$ 22,268,370</u>

See notes to financial statements.

DAUPHIN COUNTY LIBRARY SYSTEM

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (687,356)	\$ (922,218)
Adjustments:		
Depreciation	1,217,550	1,296,576
(Gain) loss on disposal of fixed assets	(968)	28,895
In-kind contributions for library materials	(18,580)	(25,181)
Change in fair value of beneficial interests held by third parties	112,540	21,665
Change in endowment funds held	122,174	(77,164)
Cash received restricted for endowment	(34,770)	(27,682)
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(455,083)	22,361
Pledges receivable	(36,516)	5,000
Prepaid expenses	(37,031)	56,534
Increase (decrease) in:		
Accounts payable	61,929	(59,170)
Accrued payroll, vacation, payroll taxes and withholdings	26,137	15,155
Deferred revenue	(28,471)	(56,837)
Defined benefit pension plan obligation	190,616	593,865
Total adjustments	1,119,527	1,794,017
Net cash provided by operating activities	432,171	871,799
Cash flows from investing activities:		
Proceeds from sale of property and equipment	4,888	698
Purchase of real estate, equipment and library materials	(899,522)	(731,313)
Net cash used in investing activities	(894,634)	(730,615)

(continued)

DAUPHIN COUNTY LIBRARY SYSTEM

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash flows from financing activities:		
Cash received restricted for endowment	\$ 34,770	\$ 27,682
Payments on capital lease obligations	<u>(6,749)</u>	<u>(22,184)</u>
Net cash provided by financing activities	<u>28,021</u>	<u>5,498</u>
Increase (decrease) in cash and cash equivalents	(434,442)	146,682
Cash and cash equivalents:		
Beginning of year	<u>5,406,104</u>	<u>5,259,422</u>
End of year	<u><u>\$ 4,971,662</u></u>	<u><u>\$ 5,406,104</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 80	\$ 2,333

See notes to financial statements.

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

1. Operations and significant accounting policies:

Operations:

The Dauphin County Library System (the Library) offers an impressive range of literacy, cultural and reference services to more than 235,000 area residents, educators and business professionals. In recent years, the libraries have increasingly become community centers for discussion classes, workshops and seminars, seasonal events and for meetings of senior citizens' organizations and similar civic groups.

Cash and cash equivalents:

For purposes of reporting cash flows, the Library considers short-term certificates of deposit to be cash equivalents.

Accounts and pledges receivable:

Accounts and pledges receivable are unsecured and stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with customers and contributors having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial.

Beneficial interest held by third parties:

Beneficial interests consist of the fair value of assets held in trusts established by donors for the benefit of the Library. These interests are recorded in the accompanying financial statements when the Library has received sufficient documentation to substantiate the trusts are irrevocable and unconditional, and the fair value of the Library's interest in the trusts can be readily determined. The Library generally does not have the ability to obtain direct control over its beneficial interest in assets held by third parties in the near term. Distributions to the Library from perpetual trusts are typically used to fund operations unless otherwise directed by the donors.

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

1. Operations and significant accounting policies (continued):

Fixed assets:

These assets are recorded at cost except for donated books which are recorded at their fair value on the date donated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. All assets, other than library materials, acquired in excess of \$500 with estimated useful lives exceeding one year are capitalized. All appropriate library materials are capitalized.

Donated materials and services:

The Library records the value of donated materials when there is an objective basis available to measure their value. Donated material and equipment, if any, are reflected as contributions in the accompanying statements at the fair value on the date received.

No amounts have been presented in the financial statements for donated services. The Library pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Library with the development and conduct of its program.

Accrued vacation:

Employees of the Library are entitled to paid vacation depending on length of service and other factors; therefore, a liability is accrued for vacation earned but not yet taken.

Contributions:

The Library reports restricted contributions that are received and released from restrictions within the same period as unrestricted revenue in the statements of activity.

Endowments:

The Library's endowments consist of individual funds established for a variety of purposes. Its endowments include both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

1. Operations and significant accounting policies (continued):

Endowments (continued):

The Library has interpreted the Pennsylvania Uniform Principal and Income Act and Pennsylvania Act 141 as requiring the preservation of the fair value of the original gift as of the receipt date of the donor restricted endowment funds, to the extent that there are no donor stipulations to the contrary. The Library classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts made to the endowment. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Library in a manner consistent with the standard of prudence described by Pennsylvania Act 141. The Library may annually spend certain percentages of the average portfolio value, using December 31 valuations, unless otherwise restricted by the donor.

Net asset classifications:

The following three categories of net assets are presented in the financial statements:

- Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired.
- Temporarily restricted net assets result from donor-imposed restrictions that permit the Library to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the Library.
- Permanently restricted net assets result from donor-imposed restrictions that stipulate the resources be maintained permanently, but permit the Library to expend all of the income derived from the donated assets for specified purposes.

Tax status:

The Library has been recognized as exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state statutes.

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

1. Operations and significant accounting policies (continued):

Estimates:

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported support, revenue and expenses. Actual results could vary from the estimates that were used.

Subsequent events:

The Library has evaluated subsequent events through June 14, 2016, the date which the financial statements were available to be issued.

Reclassifications:

Certain reclassifications have been made to the 2014 financial statement amounts in order to conform to the 2015 presentation.

2. Grants:

Grants are earned and reported as revenues when the Library has incurred expenditures in compliance with the contract. Grant revenue recognized in 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Dauphin County grant	\$ 75,000	\$ 59,522
Other grants	81,145	16,088
E-rate program	44,356	50,931
Educational improvement tax credit contributions		<u>47,700</u>
	<u>\$ 200,501</u>	<u>\$ 174,241</u>

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

3. Cash and cash equivalents:

Cash and cash equivalents consist of the following:

	<u>2015</u>	<u>2014</u>
Checking	\$ 2,047,398	\$ 1,179,985
Money market and savings	1,909,541	2,432,422
Certificates of deposit	1,013,543	1,792,517
Other	<u>1,180</u>	<u>1,180</u>
	<u><u>\$ 4,971,662</u></u>	<u><u>\$ 5,406,104</u></u>

Cash and cash equivalents in excess of the Federal Deposit Insurance Corporation (FDIC) insurance coverage were \$3,216,472 as of December 31, 2015.

4. Campaign pledges:

Fund-raising campaign pledges receivable were as follows:

	<u>2015</u>	<u>2014</u>
Unconditional promises to give before unamortized discount	\$ 40,750	\$ 750
Less unamortized present value discount at 2.27%	<u>(3,484)</u>	
Net unconditional promises to give	<u><u>\$ 37,266</u></u>	<u><u>\$ 750</u></u>
Amounts due in:		
Less than one year	\$ 10,022	\$ 750
One to five years	<u>27,244</u>	
	<u><u>\$ 37,266</u></u>	<u><u>\$ 750</u></u>

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

5. Fair value measurements:

FASB ASC 820, *Fair Value Measurement*, clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements. FASB ASC 820 also establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset. Observable inputs reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset developed based on the best information available in the circumstances.

The three-level hierarchy for fair value measurements to clarify the valuation of an asset is as follows:

- Level 1 – Quoted prices in active markets for identical investment.
- Level 2 – Other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.).
- Level 3 – Significant unobservable inputs (including the Library's own assumptions in determining the fair value of investments). There are no Level 3 fair value measurements.

Investments for which market prices are readily available (mutual funds) are valued by reference to quoted market prices. Fair values for corporate and municipal bonds are valued by the broker, Fulton Financial Advisors, and are based on recent trading activity and other relevant information, including market interest rate curves, the type of municipal bond security, the discounted cash flow calculation that applies interest rates currently offered to a schedule of aggregated expected monthly maturities on securities, referenced credit spreads, guarantees of the security and redemption features of the security, where applicable.

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

5. Fair value measurements (continued):

The following tables present the Library's assets that are measured at fair value on a recurring basis at December 31, 2015 and 2014, consistent with the fair value hierarchy provisions of ASC 820:

Description	Total	Fair value measurements at December 31, 2015 using	
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
Certificates of deposit	\$ 1,013,543	\$ 1,013,543	
Endowment funds held:			
Common stocks	699,150	699,150	
Equity mutual funds	275,941	275,941	
Alternative investments	265,108	265,108	
Master limited partnerships	27,409	27,409	
Money market	101,164	101,164	
Fixed income:			
Corporate	185,106		\$ 185,106
U.S. treasuries	181,791	181,791	
Municipal bonds	14,714		14,714
Mututal funds	286,445	286,445	
	<u>2,036,828</u>		
Beneficial interests held by third parties	<u>1,545,763</u>		<u>1,545,763</u>
Total	<u>\$ 4,596,134</u>	<u>\$ 2,850,551</u>	<u>\$ 1,745,583</u>

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

5. Fair value measurement (continued):

Description	Total	Fair value measurements at December 31, 2014 using	
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
Certificates of deposit	\$ 1,792,517	\$ 1,792,517	
Endowment funds held:			
Common stocks	757,477	757,477	
Equity mutual funds	190,869	190,869	
Alternative investments	315,884	315,884	
Master limited partnerships	96,306	96,306	
Money market	93,410	93,410	
Fixed income:			
Corporate	155,348		\$ 155,348
U.S. treasuries	106,286	106,286	
Municipal bonds	15,621		15,621
Mutual funds	427,801	427,801	
	<u>2,159,002</u>		
Beneficial interests held by third parties	<u>1,658,303</u>		<u>1,658,303</u>
Total	<u>\$ 5,609,822</u>	<u>\$ 3,780,550</u>	<u>\$ 1,829,272</u>

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

6. Investments:

Investments at December 31, 2015 and 2014 were as follows:

	2015		2014	
	Cost	Fair value	Cost	Fair value
Common stocks	\$ 702,032	\$ 699,150	\$ 723,482	\$ 757,477
Mutual funds	284,025	275,941	183,658	190,869
Alternative investments	288,607	265,108	326,534	315,884
Master limited partnerships	25,000	27,409	82,254	96,306
Money market	101,163	101,164	93,409	93,410
Fixed income:				
Corporate	184,397	185,106	151,739	155,348
U.S. treasuries	181,157	181,791	106,273	106,286
Municipal bonds	14,814	14,714	14,814	15,621
Mutual funds	306,743	286,445	439,155	427,801
Total	\$ 2,087,938	\$ 2,036,828	\$ 2,121,318	\$ 2,159,002

Investment income in 2015 and 2014 is summarized as follows:

	2015	2014
Dividends and interest income	\$ 64,363	\$ 62,720
Realized gains (losses)	(46,231)	147,469
Unrealized losses	18,132	210,189
	(86,290)	(118,979)
	\$ (68,158)	\$ 91,210

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

7. Fixed assets:

The costs and related accumulated depreciation of fixed assets are as follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 922,455	\$ 922,455
Buildings, furnishings and equipment	19,249,175	19,175,108
Library materials	2,839,750	2,903,775
Motor vehicles	137,873	121,510
Construction in progress	<u>224,800</u>	<u>15,108</u>
	23,374,053	23,137,956
Less accumulated depreciation	<u>9,198,919</u>	<u>8,659,454</u>
	<u><u>\$ 14,175,134</u></u>	<u><u>\$ 14,478,502</u></u>

A reconciliation of Library materials follows:

	<u>2015</u>	<u>2014</u>
Cost of materials at beginning of year	\$ 2,903,775	\$ 3,539,192
Materials purchased and donated	598,379	666,901
Materials fully depreciated and deleted	<u>(662,404)</u>	<u>(1,302,318)</u>
Cost of materials at end of year	<u><u>\$ 2,839,750</u></u>	<u><u>\$ 2,903,775</u></u>

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

8. Beneficial interests held by third parties:

The Library is the beneficiary of several trusts held by third parties. On an annual basis, the Library places a value on the beneficial interests based on the quoted market value of the investments held in trust. The amounts recorded in the Library's statements of financial position as of December 31, 2015 and 2014 includes the following:

	<u>2015</u>	<u>2014</u>
Ida Browning	\$ 143,749	\$ 159,034
Edith Demain	415,604	445,476
Robert Hanson	94,976	91,350
William Donaldson (under agreement)	100,459	109,629
William Donaldson (under will)	449,147	488,964
James McCormick Memorial Fund	86,852	90,614
Charlotte L. Shuey	209,341	223,950
Thomas Wierman	<u>45,635</u>	<u>49,286</u>
	<u>\$ 1,545,763</u>	<u>\$ 1,658,303</u>

The trusts were established by persons, wills, living trust agreements and court decrees with various restrictions. The entire balance is reported as either a component of permanently restricted net assets or temporarily restricted net assets.

9. Endowment fund:

The long-term objective of the endowment fund is to pursue a set of objectives designed to maximize the returns of the endowment fund without exposing it to undue risk. In order to meet its goals, the investment strategy of the endowment fund is to emphasize total return, that is, the aggregate return from capital appreciation and dividend and interest income. The objective shall be achieved by investing in a mix of cash equivalents, fixed income instruments and equity securities that meet the investment strategy. The objective may also be achieved by use of alternative investment that meets the investment strategy.

Investment strategies employed by the managers shall conserve and enhance the capital value of the endowment fund in real terms through asset appreciation and income generation while maintaining an appropriate investment risk profile.

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

9. Endowment fund (continued):

In order to achieve its objectives for its assets, the endowment fund will experience volatility of returns and fluctuations of market value. A level of volatility similar to a comparable market index is deemed acceptable in order to achieve the investment objectives of the endowment fund.

Changes in endowment-related activities for the years ended 2015 and 2014 are as follows:

	Board designated unrestricted	Temporarily restricted	Permanently restricted	Total
January 1, 2014	\$ 987,394	\$ 236,525	\$ 2,548,260	\$ 3,772,179
Net investment income	28,790	27,457	(20,136)	36,111
Contributions			27,682	27,682
Appropriated for expenditure		(11,403)		(11,403)
January 1, 2015	1,016,184	252,579	2,555,806	3,824,569
Net investment income	(78,898)	(94,083)	(104,897)	(277,878)
Contributions			34,770	34,770
Other		1,130		1,130
December 31, 2015	<u>\$ 937,286</u>	<u>\$ 159,626</u>	<u>\$ 2,485,679</u>	<u>\$ 3,582,591</u>

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

10. Net assets:

Net assets consist of the following:

	2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets:				
Funds invested in perpetuity for which income is temporarily restricted until funds are utilized to satisfy those restrictions:				
Carole DeSoto Fund, Elizabethville Arts Series		\$ 3,534	\$ 67,025	\$ 70,559
Joan Y. Leopold Fund, Children's Book Week		2,579	98,091	100,670
Kathryn Witmer Sandel Memorial Fund, materials for the William H. and Marion C. Alexander Family Library		740	13,927	14,667
Henry & Dottie Swartz Fund, East Shore Area Library materials and expansion		31,399	642,422	673,821
Light the Way to Learning		20,041	173,714	193,755
Beneficial interests held by third parties		71,874	1,473,889	1,545,763
Other endowment funds		29,459	16,611	46,070
Designated by the Board of Trustees to function as an endowment	\$ 937,286			937,286
Total endowment net assets	937,286	159,626	2,485,679	3,582,591
Net assets restricted by donors for library materials		311,649		311,649
Unrestricted and undesignated net assets:				
Defined benefit pension liability	1,884,900			1,884,900
Other	15,801,874			15,801,874
Total unrestricted and undesignated net assets	17,686,774			17,686,774
Total net assets	\$ 18,624,060	\$ 471,275	\$ 2,485,679	\$ 21,581,014

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

10. Net assets (continued):

	2014			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Endowment net assets:				
Funds invested in perpetuity for which income is temporarily restricted until funds are utilized to satisfy those restrictions:				
Carole DeSoto Fund, Elizabethville Arts Series		\$ 10,205	\$ 66,000	\$ 76,205
Joan Y. Leopold Fund, Children's Book Week		11,032	90,318	101,350
Kathryn Witmer Sandel Memorial Fund, materials for the William H. and Marion C. Alexander Family Library		2,100	13,927	16,027
Henry & Dottie Swartz Fund, East Shore Area Library materials and expansion		96,796	642,421	739,217
Light the Way to Learning		24,265	152,243	176,508
Beneficial interests held by third parties		79,517	1,578,785	1,658,302
Other endowment funds		28,664	12,112	40,776
Designated by the Board of Trustees to function as an endowment	\$ 1,016,184			1,016,184
Total endowment net assets	<u>1,016,184</u>	<u>252,579</u>	<u>2,555,806</u>	<u>3,824,569</u>
Net assets restricted by donors for library materials		<u>153,997</u>		<u>153,997</u>
Unrestricted and undesignated net assets:				
Defined benefit pension liability	1,622,519			1,622,519
Other	<u>16,667,285</u>			<u>16,667,285</u>
Total unrestricted and undesignated net assets	<u>18,289,804</u>			<u>18,289,804</u>
Total net assets	<u>\$ 19,305,988</u>	<u>\$ 406,576</u>	<u>\$ 2,555,806</u>	<u>\$ 22,268,370</u>

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

11. Net assets released from restrictions:

Net assets were released from donor restrictions as follows:

	<u>2015</u>	<u>2014</u>
Library materials, programming and other	\$ 127,938	\$ 106,926

12. Pension plan:

The Library has a defined benefit pension plan covering employees who meet age and service requirements. The Library's pension plan funding policy provides for periodic employer contributions at actuarially determined rates sufficient to meet at least the minimum funding standards under applicable regulations. Benefits are based on years of service and employee compensation. Effective January 1, 2015, employees have to contribute 1% of pay up to \$25,000 and 5% of pay in excess of \$25,000. Employee contributions are not credited with interest.

Obligations and funded status:

The following table provides further information about the defined benefit pension plan:

	<u>2015</u>	<u>2014</u>
Fair value of plan assets	\$ 4,814,287	\$ 4,913,066
Projected benefit obligation	6,360,045	6,268,208
Funded status	(1,545,758)	(1,355,142)
Amount recognized in the statements of financial position	(1,545,758)	(1,355,142)
Pension cost	93,430	73,564
Employee contributions	59,220	
Employer contributions	165,195	222,205
Benefits paid	253,774	237,135
Amounts previously recognized in unrestricted net assets, not yet recognized as periodic pension costs	1,884,900	1,622,519

The accumulated benefit obligation was \$5,735,675 and \$5,622,588 at December 31, 2015 and 2014, respectively.

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

12. Pension plan (continued):

Obligations and funded status (continued):

The following is an analysis of the components of pension accounting:

	<u>Annual cost</u>	<u>Pension assets</u>	<u>Pension obligation</u>	<u>Deferred actuarial (gain) loss</u>
Beginning balance, January 1, 2015		\$ 4,913,066	\$ (6,268,208)	\$ 1,622,519
Service cost	\$ 250,110		(250,110)	
Interest cost	248,242		(248,242)	
Actual return	69,420	(69,420)		
Deferrals, actual to expected return adjustment	(481,579)			481,579
Actuarial changes			227,874	(227,874)
Other experience gain			(75,133)	75,133
Amortization, deferred actuarial loss	66,457			(66,457)
Contributions and benefits:				
Contributions	(59,220)	224,415		
Benefits paid		(253,774)	253,774	
Total	<u>\$ 93,430</u>	<u>(98,779)</u>	<u>(91,837)</u>	<u>262,381</u>
Ending balance, December 31, 2015		<u>\$ 4,814,287</u>	<u>(6,360,045)</u>	<u>\$ 1,884,900</u>
Net liability			<u>\$ (1,545,758)</u>	

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

12. Pension plan (continued):

Obligations and funded status (continued):

	<u>Annual cost</u>	<u>Pension assets</u>	<u>Pension obligation</u>	<u>Deferred actuarial (gain) loss</u>
Beginning balance, January 1, 2014		<u>\$ 4,703,810</u>	<u>\$ (5,465,087)</u>	<u>\$ 880,013</u>
Service cost	\$ 189,241		(189,241)	
Interest cost	254,144		(254,144)	
Actual return	(224,186)	224,186		
Deferrals, actual to expected return adjustment	(165,055)			165,055
Actuarial changes			(579,039)	579,039
Other experience gain			(17,832)	17,832
Amortization, deferred actuarial loss	19,420			(19,420)
Contributions and benefits:				
Contributions		222,205		
Benefits paid		(237,135)	237,135	
Total	<u>\$ 73,564</u>	<u>209,256</u>	<u>(803,121)</u>	<u>742,506</u>
Ending balance, December 31, 2014		<u>\$ 4,913,066</u>	<u>(6,268,208)</u>	<u>\$ 1,622,519</u>
Net liability			<u>\$ (1,355,142)</u>	

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

12. Pension plan (continued):

Assumptions:

	2015	2014
Weighted-average assumptions used in determining benefit obligations:		
Discount rate	4.25 %	4.00 %
Rate of compensation increase	3.00	3.00
Weighted-average assumptions used in determining net periodic benefit cost:		
Discount rate	4.00	4.00
Expected return on plan assets	8.50	8.50
Rate of compensation increase	3.00	3.00

The basis for the long-term expected rate of return is based on the Library's risk tolerance and historical trends of its invested plan asset mix. The expected rate of return has not been adjusted recently, since historically it has not fluctuated above or below that rate significantly, and based on the current asset class mix and risk tolerance, the expected future return is 8.5%.

Plan assets:

The Library's pension plan weighted averaged asset allocations at December 31, 2015 and 2014, by asset category, are as follows:

Asset category		
	2015	2014
Equity securities	60 %	61 %
Fixed income securities	40	39
	100 %	100 %

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

12. Pension plan (continued):

Plan assets (continued):

The Library's investment policy for plan assets is to manage the portfolio to preserve principal and liquidity while maximizing the return on the investment portfolio through the full investment of available funds. The portfolio is diversified by investing in multiple types of investment-grade securities. The investment policy requires fixed income securities of the plan to be primarily invested in short-term securities with at least an investment grade rating to minimize interest rate and credit risk as well as to provide for an immediate source of funds. Target allocation percentages for each major category of plan assets are as follows:

Equity securities	40 % - 80 %
Fixed income securities	20 % - 60 %
Cash and equivalents	0 % - 15 %

The Library attempts to mitigate investment risk by rebalancing between equity and fixed income asset classes as the Library's contributions and monthly benefit payments are made. Although changes in interest rates, economic conditions and expectations may affect the fair value of the investment portfolio and cause unrealized gains or losses, such gains or losses would not be realized unless the investments are sold.

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

12. Pension plan (continued):

Fair value measurement:

The fair values of assets held in the plan as measured under ASC 820 (as described in Note 5) at December 31, 2015 and 2014 are as follows:

	2015		2014	
	Fair value	Fair value measurement using Quoted prices Level 1	Fair value	Fair value measurement using Quoted prices Level 1
Investments				
Money funds	\$ 19,892	\$ 19,892		
Equities	2,884,600	2,884,600	\$ 2,995,098	\$ 2,995,098
Fixed income funds	1,909,795	1,909,795	1,917,968	1,917,968
	<u>\$ 4,814,287</u>	<u>\$ 4,814,287</u>	<u>\$ 4,913,066</u>	<u>\$ 4,913,066</u>

Cash flows:

The Library expects to contribute \$92,095 to its pension plan in 2016.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2016	\$ 301,508
2017	324,883
2018	355,445
2019	348,954
2020	360,441
2021-2024	<u>1,751,381</u>
	<u>\$ 3,442,612</u>

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

13. Line of credit:

The Library has an unsecured \$350,000 line of credit with M&T Bank. Interest is charged at the bank's base rate which was 4.25% as of December 31, 2015. There were no amounts outstanding at December 31, 2015 and 2014.

14. Revenue recognition:

A significant amount of support for the Library is received from a dedicated real estate tax collected by Dauphin County, Pennsylvania (the County). Support from the County totaled \$4,435,464 and \$4,401,823 for the years ended December 31, 2015 and 2014, respectively. In addition, the Commonwealth of Pennsylvania contributes amounts which are also determined annually. These amounts totaled \$1,343,305 and \$1,336,575 for the years ended December 31, 2015 and 2014, respectively. Also, Lower Paxton Township provided \$125,627 and \$128,516 from real estate tax assessments for the years ended December 31, 2015 and 2014, respectively.

DAUPHIN COUNTY LIBRARY SYSTEM

OPERATING SUPPORT AND REVENUE

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Operating support:		
Tax appropriations:		
Dauphin County	\$ 4,435,464	\$ 4,401,823
Commonwealth of Pennsylvania	1,343,305	1,336,575
Lower Paxton Township	<u>125,627</u>	<u>128,516</u>
	<u>5,904,396</u>	<u>5,866,914</u>
Grants	<u>200,501</u>	<u>174,241</u>
Contributions:		
Funds and foundations	112,448	91,172
Other	<u>502,827</u>	<u>316,240</u>
	<u>615,275</u>	<u>407,412</u>
Total contributions	<u>615,275</u>	<u>407,412</u>
Total operating support	<u>6,720,172</u>	<u>6,448,567</u>
Operating revenue:		
Desk receipts	184,715	191,754
Negotiated services	19,563	45,294
Other	12,127	7,212
Printing	1,193	1,053
Workshops		267
Credit bureau	11,939	13,517
Miscellaneous	<u>969</u>	<u>(28,897)</u>
	<u>230,506</u>	<u>230,200</u>

(continued)

DAUPHIN COUNTY LIBRARY SYSTEM

OPERATING SUPPORT AND REVENUE (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Realized gain (loss) on sale of investments	\$ (46,231)	\$ 147,469
Investment income	<u>64,363</u>	<u>62,720</u>
	<u>18,132</u>	<u>210,189</u>
Change in the fair value of:		
Beneficial interest held by third parties	(112,540)	(21,665)
Endowment funds held	<u>(86,290)</u>	<u>(118,979)</u>
	<u>(198,830)</u>	<u>(140,644)</u>
Total operating support and revenue	<u>\$ 6,769,980</u>	<u>\$ 6,748,312</u>

DAUPHIN COUNTY LIBRARY SYSTEM

OPERATING EXPENSES

YEAR ENDED DECEMBER 31, 2015

	<u>Library services</u>	<u>Management and general</u>	<u>Fund-raising</u>	<u>Total</u>
Operations:				
Bank fees		\$ 5,944		\$ 5,944
Building and equipment maintenance	\$ 417,253	41,724		458,977
Computer supplies	10,206	5,026		15,232
Depreciation:				
Buildings, furnishings and equipment	559,792	35,731		595,523
Library materials	606,482			606,482
Vehicles	9,838	5,707		15,545
Electronic library materials	92,343			92,343
Licensing and equipment rental	228,429	15,042		243,471
Freight and postage	13,277	757	\$ 15,812	29,846
Insurance	270,959	83,239	1,863	356,061
Interest	54	26		80
Investment fees		20,524		20,524
Memberships	14,696	5,800		20,496
Miscellaneous	738	3,053		3,791
Newspapers	29,272			29,272
On-line loan and catalog service	40,311			40,311
Outsourcing charges	12,794			12,794
Payroll taxes	211,772	54,111	823	266,706
Pension and retirement	88,857	4,573		93,430
Periodicals	40,940			40,940
Printing	14,558		11,391	25,949
Professional fees	71,816	84,639	21,289	177,744
Program expenses	231,476	3,729		235,205
Salaries	2,800,366	572,889	10,795	3,384,050
Supplies	28,691	6,280		34,971

(continued)

DAUPHIN COUNTY LIBRARY SYSTEM

OPERATING EXPENSES (CONTINUED)

YEAR ENDED DECEMBER 31, 2015

	<u>Library services</u>	<u>Management and general</u>	<u>Fund-raising</u>	<u>Total</u>
Operations (continued):				
Telephone	\$ 78,566	\$ 3,699		\$ 82,265
Travel and training	97,988	16,631		114,619
Utilities	145,998	24,122		170,120
Vehicles, repairs and maintenance	<u>15,238</u>	<u>7,026</u>		<u>22,264</u>
Total operating expenses	<u>\$ 6,132,710</u>	<u>\$ 1,000,272</u>	<u>\$ 61,973</u>	<u>\$ 7,194,955</u>

DAUPHIN COUNTY LIBRARY SYSTEM

OPERATING EXPENSES

YEAR ENDED DECEMBER 31, 2014

	<u>Library services</u>	<u>Management and general</u>	<u>Fund-raising</u>	<u>Total</u>
Operations:				
Bank fees		\$ 8,364		\$ 8,364
Building and equipment maintenance	\$ 404,165	40,415		444,580
Computer supplies	5,036	2,480		7,516
Depreciation:				
Buildings, furnishings and equipment	609,537	38,907		648,444
Library materials	637,455			637,455
Vehicles	6,757	3,920		10,677
Electronic library materials	99,483			99,483
Licensing and equipment rental	211,961	13,958		225,919
Freight and postage	21,922	1,251	\$ 26,106	49,279
Insurance	250,878	77,070	1,724	329,672
Interest	1,563	770		2,333
Investment fees		19,538		19,538
Memberships	15,346	6,056		21,402
Miscellaneous	778	3,216		3,994
Newspapers	21,778			21,778
On-line loan and catalog service	39,411			39,411
Outsourcing charges	14,033			14,033
Payroll taxes	195,537	49,963	760	246,260
Pension and retirement	69,964	3,600		73,564
Periodicals	41,520			41,520
Printing	19,756		15,458	35,214
Professional fees	62,983	76,070	42,366	181,419
Program expenses	220,323	3,550		223,873
Salaries	2,578,807	527,563	9,942	3,116,312
Supplies	27,308	5,977		33,285

(continued)

DAUPHIN COUNTY LIBRARY SYSTEM

OPERATING EXPENSES (CONTINUED)

YEAR ENDED DECEMBER 31, 2014

	<u>Library services</u>	<u>Management and general</u>	<u>Fund-raising</u>	<u>Total</u>
Operations (continued):				
Telephone	\$ 93,563	\$ 4,405		\$ 97,968
Travel and training	67,534	11,462		78,996
Utilities	162,185	26,797		188,982
Vehicles, repairs and maintenance	<u>18,310</u>	<u>8,443</u>		<u>26,753</u>
Total operating expenses	<u>\$ 5,897,893</u>	<u>\$ 933,775</u>	<u>\$ 96,356</u>	<u>\$ 6,928,024</u>