

DAUPHIN COUNTY LIBRARY SYSTEM

***YEARS ENDED
DECEMBER 31, 2014 AND 2013***

DAUPHIN COUNTY LIBRARY SYSTEM

YEARS ENDED DECEMBER 31, 2014 AND 2013

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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, 2014 and 2013, 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 the 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, 2014 and 2013 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.

Correction of an Error

As discussed in Note 15 to the financial statements, certain errors resulting in understatements of amounts previously reported for beneficial interests held by third parties as of December 31, 2013 and 2012, and related changes in fair value of beneficial interests held by third parties for the year ended December 31, 2013, were discovered by management of the Library during the current year. Accordingly, amounts reported for beneficial interests held by third parties have been restated in the 2013 financial statements now presented, and an adjustment has been made to net assets as of January 1, 2013, to correct the error. Our opinion is not modified with respect to that matter.

Brown Schultz Steindler & Fritz

June 9, 2015

DAUPHIN COUNTY LIBRARY SYSTEM

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u> (Restated)
ASSETS		
Cash and cash equivalents	\$ 5,406,104	\$ 5,259,422
Accounts receivable	120,818	143,179
Pledges receivable	750	5,750
Prepaid expenses	251,685	308,219
Fixed assets, net	14,478,502	15,048,177
Endowment funds held	2,159,002	2,081,838
Beneficial interests held by third parties	1,658,303	1,679,968
	<u>\$ 24,075,164</u>	<u>\$ 24,526,553</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 177,949	\$ 237,119
Accrued payroll, vacation, payroll taxes and withholdings	229,594	214,439
Deferred revenue	37,360	94,197
Capital lease obligations	6,749	28,933
Defined benefit pension plan obligation	1,355,142	761,277
	<u>1,806,794</u>	<u>1,335,965</u>
Total liabilities		
Net assets:		
Unrestricted	19,305,988	20,288,600
Temporarily restricted	406,576	353,728
Permanently restricted	2,555,806	2,548,260
	<u>22,268,370</u>	<u>23,190,588</u>
Total net assets		
	<u>\$ 24,075,164</u>	<u>\$ 24,526,553</u>

See notes to financial statements.

DAUPHIN COUNTY LIBRARY SYSTEM

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2014 AND 2013

	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	<u>6,687,918</u>	<u>52,848</u>	<u>7,546</u>	<u>6,748,312</u>
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	<u>6,928,024</u>			<u>6,928,024</u>
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	<u>(742,506)</u>			<u>(742,506)</u>
Change in net assets	(982,612)	52,848	7,546	(922,218)
Net assets:				
Beginning of year	<u>20,288,600</u>	<u>353,728</u>	<u>2,548,260</u>	<u>23,190,588</u>
End of year	<u>\$ 19,305,988</u>	<u>\$ 406,576</u>	<u>\$ 2,555,806</u>	<u>\$ 22,268,370</u>

(continued)

DAUPHIN COUNTY LIBRARY SYSTEM

STATEMENT OF ACTIVITIES (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2013 (Restated)			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Operating support and revenue:				
Tax appropriations	\$ 6,031,590			\$ 6,031,590
Grants	124,912	\$ 101,720		226,632
Contributions	268,957	156,006	\$ 36,247	461,210
Operating revenue	283,864			283,864
Investment income	60,633	49,853		110,486
Change in the fair value of:				
Beneficial interests held by third parties		3,814	112,883	116,697
Investments, primarily held as endowments	151,704			151,704
Net assets released, satisfaction of time and purpose restrictions	282,220	(282,220)		-
Total operating support and revenue	<u>7,203,880</u>	<u>29,173</u>	<u>149,130</u>	<u>7,382,183</u>
Operating expenses:				
Library services	5,925,100			5,925,100
Management and general	1,048,589			1,048,589
Fund-raising	45,872			45,872
Total operating expenses	<u>7,019,561</u>			<u>7,019,561</u>
Change in net assets before pension related changes other than net periodic pension costs	184,319	29,173	149,130	362,622
Pension related changes other than net periodic pension costs	<u>1,206,176</u>			<u>1,206,176</u>
Change in net assets	1,390,495	29,173	149,130	1,568,798
Net assets:				
Beginning of year	<u>18,898,105</u>	<u>324,555</u>	<u>2,399,130</u>	<u>21,621,790</u>
End of year	<u>\$ 20,288,600</u>	<u>\$ 353,728</u>	<u>\$ 2,548,260</u>	<u>\$ 23,190,588</u>

See notes to financial statements.

DAUPHIN COUNTY LIBRARY SYSTEM

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013 (Restated)
Cash flows from operating activities:		
Change in net assets	\$ (922,218)	\$ 1,568,798
Adjustments:		
Depreciation	1,296,576	1,344,120
Loss on disposal of fixed assets	28,895	4,330
In-kind contributions for library materials	(25,181)	(11,518)
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	22,361	31,045
Pledges receivable	5,000	83,328
Prepaid expenses	56,534	(51,025)
Increase (decrease) in:		
Accounts payable	(59,170)	9,531
Accrued payroll, vacation, payroll taxes and withholdings	15,155	12,003
Deferred revenue	(56,837)	54,884
Defined benefit pension plan obligation	593,865	(1,238,567)
	1,877,198	238,131
Total adjustments		
Net cash provided by operating activities	954,980	1,806,929
Cash flows from investing activities:		
Proceeds from sale of property and equipment	698	650
Purchase of real estate, equipment and library materials	(731,313)	(720,848)
Net cash used in investing activities	(730,615)	(720,198)

(continued)

DAUPHIN COUNTY LIBRARY SYSTEM

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u> (Restated)
Cash flows from financing activities:		
Payments of notes payable		\$ (934,458)
Payments on capital lease obligations	\$ (22,184)	(23,153)
Change in fair value of beneficial interests held by third parties	21,665	(116,697)
Change in endowment funds held	<u>(77,164)</u>	<u>(276,591)</u>
Net cash used in financing activities	<u>(77,683)</u>	<u>(1,350,899)</u>
Increase (decrease) in cash and cash equivalents	146,682	(264,168)
Cash and cash equivalents:		
Beginning of year	<u>5,259,422</u>	<u>5,523,590</u>
End of year	<u>\$ 5,406,104</u>	<u>\$ 5,259,422</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 2,333	\$ 27,408

See notes to financial statements.

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

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, 2014 AND 2013

1. Operations and significant accounting policies (continued):

Fixed assets:

These assets are recorded at cost except for donated books which are recorded at their estimated 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 estimated 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, 2014 AND 2013

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.

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

1. Operations and significant accounting policies (continued):

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.

The Library follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, to account for uncertainty in income taxes. The Library files a Form 990, *Return of Organization Exempt from Income Tax*, with the Internal Revenue Service. The Library is no longer subject to U.S. federal income tax examinations by tax authorities for year before 2011.

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 9, 2015, the date which the financial statements were available to be issued.

2. Grants:

Grants are earned and reported as revenues when the Library has incurred expenditures in compliance with the contract. Grant revenue recognized in 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Dauphin County grant	\$ 59,522	\$ 57,628
PNC grant		29,974
Other grants	16,088	14,118
E-rate program	50,931	80,412
Earned income tax contributions	<u>47,700</u>	<u>44,500</u>
	<u>\$ 174,241</u>	<u>\$ 226,632</u>

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

3. Cash and cash equivalents:

Cash and cash equivalents consist of the following:

	<u>2014</u>	<u>2013</u>
Checking	\$ 1,179,985	\$ 1,157,274
Money market and savings	2,432,422	2,375,895
Certificates of deposit	1,792,517	1,725,000
Other	<u>1,180</u>	<u>1,253</u>
	<u>\$ 5,406,104</u>	<u>\$ 5,259,422</u>

Cash and cash equivalents in excess of the Federal Deposit Insurance Corporation (FDIC) insurance coverage were approximately \$3,121,274 as of December 31, 2014.

4. Fair value measurements:

FASB ASC 820, Fair Value Measurements, clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of the 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.

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

4. Fair value measurements (continued):

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.

The following tables present the Library's assets that are measured at fair value on a recurring basis at December 31, 2014 and 2013, consistent with the fair value hierarchy provisions of ASC 820:

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)
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	
	2,159,002		
Beneficial interests held by third parties	1,658,303		1,658,303
Total	<u>\$ 3,817,305</u>	<u>\$ 1,988,033</u>	<u>\$ 1,829,272</u>

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

4. Fair value measurement (continued):

Description	Total	Fair value measurements at December 31, 2013 using	
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
Endowment funds held:			
Common stocks	\$ 96,524	\$ 96,524	
Equity mutual funds	1,269,079	1,269,079	
Master limited partnerships	93,395	93,395	
Money market	79,814	79,814	
Fixed income:			
Corporate	197,352		\$ 197,352
U.S. treasuries	168,089	168,089	
Mutual funds	<u>177,585</u>	177,585	
	2,081,838		
Beneficial interests held by third parties	<u>1,679,968</u>		<u>1,679,968</u>
Total	<u>\$ 3,761,806</u>	<u>\$ 1,884,486</u>	<u>\$ 1,877,320</u>

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

5. Investments:

Investments at December 31, 2014 and 2013 were as follows:

	2014		2013	
	Cost	Fair value	Cost	Fair value
Common stocks	\$ 723,482	\$ 757,477	\$ 90,733	\$ 96,524
Mutual funds	183,658	190,869	1,121,380	1,269,079
Alternative investments	326,534	315,884		
Master limited partnerships	82,254	96,306	77,505	93,395
Money market	93,409	93,410	79,813	79,814
Fixed income:				
Corporate	151,739	155,348	200,384	197,352
U.S. treasuries	106,273	106,286	172,017	168,089
Municipal bonds	14,814	15,621		
Mutual funds	439,155	427,801	183,399	177,585
Total	<u>\$ 2,121,318</u>	<u>\$ 2,159,002</u>	<u>\$ 1,925,231</u>	<u>\$ 2,081,838</u>

Investment income in 2014 and 2013 is summarized as follows:

	2014	2013
Dividends and interest income	\$ 62,720	\$ 61,505
Realized gains	<u>147,469</u>	<u>48,981</u>
Unrealized gains (losses)	210,189 <u>(118,979)</u>	110,486 <u>151,704</u>
	<u>\$ 91,210</u>	<u>\$ 262,190</u>

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

6. Fixed assets:

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

	2014	2013
Land	\$ 922,455	\$ 922,455
Buildings, furnishings and equipment	19,175,108	19,407,280
Library materials	2,903,775	3,539,192
Motor vehicles	121,510	101,294
Construction in progress	15,108	12,120
	23,137,956	23,982,341
Less accumulated depreciation	8,659,454	8,934,164
	\$ 14,478,502	\$ 15,048,177

A reconciliation of library materials follows:

	2014	2013
Cost of materials at beginning of year	\$ 3,539,192	\$ 3,595,222
Materials purchased and donated	666,901	550,185
Materials fully depreciated and deleted	(1,302,318)	(606,215)
Cost of materials at end of year	\$ 2,903,775	\$ 3,539,192

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

7. 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, 2014 and 2013 includes the following:

	<u>2014</u>	<u>2013</u>
Ida Browning	\$ 159,034	\$ 162,093
Edith Demain	445,476	465,062
Robert Hanson	91,350	80,686
William Donaldson (under agreement)	109,629	109,585
William Donaldson (under will)	488,964	497,309
James McCormick Memorial Fund	90,614	90,399
Charlotte L. Shuey	223,950	225,347
Thomas Wierman	<u>49,286</u>	<u>49,487</u>
	<u>\$ 1,658,303</u>	<u>\$ 1,679,968</u>

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

8. 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, 2014 AND 2013

8. 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 2014 and 2013 are as follows:

	Board designated unrestricted	Temporarily restricted	Permanently restricted	Total
January 1, 2013	\$ 916,307	\$ 182,858	\$ 2,399,130	\$ 3,498,295
Net investment income	49,666	53,667	112,883	216,216
Contributions	36,519		36,247	72,766
Appropriated for expenditure	(15,098)			(15,098)
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)
December 31, 2014	<u>\$ 1,016,184</u>	<u>\$ 252,579</u>	<u>\$ 2,555,806</u>	<u>\$ 3,824,569</u>

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

9. Net assets:

Net assets consist of the following:

	2014			
	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, Elizabethtown 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	1,016,184	252,579	2,555,806	3,824,569
Net assets restricted by donors for library materials		153,997		153,997
Unrestricted and undesignated net assets:				
Defined benefit pension liability	1,622,519			1,622,519
Other	16,667,285			16,667,285
Total unrestricted and undesignated net assets	18,289,804			18,289,804
Total net assets	\$ 19,305,988	\$ 406,576	\$ 2,555,806	\$ 22,268,370

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

9. Net assets (continued):

	2013			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		\$ 8,257	\$ 63,950	\$ 72,207
Joan Y. Leopold Fund, Children's Book Week		8,543	81,687	90,230
Kathryn Witmer Sandel Memorial Fund, materials for the William H. and Marion C. Alexander Family Library		1,676	13,927	15,603
Henry & Dottie Swartz Fund, East Shore Area Library materials and expansion		77,222	642,421	719,643
Light the Way to Learning		20,081	135,311	155,392
Beneficial interests held by third parties		81,046	1,598,922	1,679,968
Other endowment funds		39,700	12,042	51,742
Designated by the Board of Trustees to function as an endowment	\$ 987,394			987,394
Total endowment net assets	<u>987,394</u>	<u>236,525</u>	<u>2,548,260</u>	<u>3,772,179</u>
Net assets restricted by donors for library materials		<u>117,203</u>		<u>117,203</u>
Unrestricted and undesignated net assets:				
Defined benefit pension liability	880,013			880,013
Other	<u>18,421,193</u>			<u>18,421,193</u>
Total unrestricted and undesignated net assets	<u>19,301,206</u>			<u>19,301,206</u>
Total net assets	<u>\$ 20,288,600</u>	<u>\$ 353,728</u>	<u>\$ 2,548,260</u>	<u>\$ 23,190,588</u>

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

10. Net assets released from restrictions:

Net assets were released from donor restrictions as follows:

	<u>2014</u>	<u>2013</u>
Library materials, programming and other	\$ 106,926	\$ 180,500
Grant expenses		<u>101,720</u>
	<u>\$ 106,926</u>	<u>\$ 282,220</u>

11. Long-term debt:

Long-term debt consisted of a mortgage note payable used to purchase real estate in Harrisburg, Pennsylvania, to construct the Madeline L. Olewine Memorial Library of the Dauphin County Library System. The mortgage had an original balance of \$1,205,600 and was dated September 14, 2005 and was secured by land, buildings and improvements to the purchased real estate. The mortgage with a fixed interest rate of 4.78% was paid in full on July 24, 2013 to Susquehanna Bank.

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 may 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.

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

12. Pension plan (continued):

Obligations and funded status:

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

	<u>2014</u>	<u>2013</u>
Fair value of plan assets	\$ 4,913,066	\$ 4,703,810
Projected benefit obligation	6,268,208	5,465,087
Funded status	(1,355,142)	(761,277)
Amount recognized in the statements of financial position	(1,355,142)	(761,277)
Pension cost	73,564	211,064
Employer contributions	222,205	243,455
Benefits paid	237,135	211,840
Amounts previously recognized in unrestricted net assets, not yet recognized as periodic pension costs	1,622,519	880,013

The accumulated benefit obligation was \$5,622,588 and \$4,966,691 at December 31, 2014 and 2013, respectively.

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

12. Pension plan (continued):

Obligations and funded status (continued):

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

	Annual cost	Pension assets	Pension obligation	Deferred actuarial (gain) loss
Beginning balance, January 1, 2014		\$ 4,703,810	\$ (5,465,087)	\$ 880,013
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 loss			(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	\$ 73,564	209,256	(803,121)	742,506
Ending balance, December 31, 2014		\$ 4,913,066	(6,268,208)	\$ 1,622,519
Net liability			\$ (1,355,142)	

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

12. Pension plan (continued):

Obligations and funded status (continued):

	Annual cost	Pension assets	Pension obligation	Deferred actuarial (gain) loss
Beginning balance, January 1, 2013		<u>\$ 4,041,578</u>	<u>\$ (6,041,422)</u>	<u>\$ 2,086,189</u>
Service cost	\$ 244,489		(244,489)	
Interest cost	226,383		(226,383)	
Actual return	(630,617)	630,617		
Deferrals, actual to expected return adjustment	297,412			(297,412)
Actuarial changes			575,040	(575,040)
Other experience gain			260,327	(260,327)
Amortization, deferred actuarial loss	73,397			(73,397)
Contributions and benefits:				
Contributions		243,455		
Benefits paid		(211,840)	211,840	
Total	<u>\$ 211,064</u>	<u>662,232</u>	<u>576,335</u>	<u>(1,206,176)</u>
Ending balance, December 31, 2013		<u>\$ 4,703,810</u>	<u>(5,465,087)</u>	<u>\$ 880,013</u>
Net liability			<u>\$ (761,277)</u>	

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

12. Pension plan (continued):

Assumptions:

	2014	2013
Weighted-average assumptions used in determining benefit obligations:		
Discount rate	4.00 %	4.75 %
Rate of compensation increase	3.00	3.00
Weighted-average assumptions used in determining net periodic benefit cost:		
Discount rate	4.00	4.75
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, 2014 and 2013, by asset category, are as follows:

Asset category		
	2014	2013
Equity securities	61 %	61 %
Fixed income securities	39	38
Cash and cash equivalents		1
	100 %	100 %

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

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, 2014 AND 2013

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 4) at December 31, 2014 and 2013 are as follows:

	2014		2013	
	Fair value	Fair value measurement using Quoted prices Level 1	Fair value	Fair value measurement using Quoted prices Level 1
Investments				
Money funds			\$ 297,664	\$ 297,664
Equities	\$ 2,995,098	\$ 2,995,098	2,722,540	2,722,540
Fixed income funds	1,917,968	1,917,968	1,683,606	1,683,606
	\$ 4,913,066	\$ 4,913,066	\$ 4,703,810	\$ 4,703,810

Cash flows:

The Library expects to contribute \$165,195 to its pension plan in 2015.

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

2015	\$ 249,712
2016	300,744
2017	327,365
2018	366,192
2019	360,215
2020-2024	1,901,136
	\$ 3,505,364

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

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, 2014. There were no amounts outstanding at December 31, 2014 and 2013.

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 \$4,401,823 and \$4,575,870 for the years ended December 31, 2014 and 2013, respectively. In addition, the Commonwealth of Pennsylvania contributes amounts which are also determined annually. These amounts totaled \$1,336,575 for each of the years ended December 31, 2014 and 2013. Also, Lower Paxton Township provided \$128,516 and \$119,145 from real estate tax assessments for the years ended December 31, 2014 and 2013, respectively.

DAUPHIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

15. Prior period adjustment:

The Library has received several beneficial interests held by third parties in the past. The Library determined that the beneficial interest in certain assets held by third parties should have been recorded and had not been recorded. The Library also reviewed the endowments and made adjustments to net assets to present amounts more consistent with the endowment assets held. The following summarizes the prior period adjustment:

	Previously Reported	Beneficial Interest Restatement	Endowment Restatement	Restated
Beneficial interests held by third parties, January 1, 2013	<u>\$ 79,389</u>	<u>\$ 1,483,882</u>		<u>\$ 1,563,271</u>
Temporarily restricted net assets, January 1, 2013	\$ 141,697	\$ 77,233	\$ 105,625	\$ 324,555
Permanently restricted net assets, January 1, 2013	<u>871,025</u>	<u>1,406,649</u>	<u>121,456</u>	<u>2,399,130</u>
Temporarily and permanently restricted net assets, January 1, 2013	<u>\$ 1,012,722</u>	<u>\$ 1,483,882</u>	<u>\$ 227,081</u>	<u>\$ 2,723,685</u>
Unrestricted net assets, January 1, 2013	<u>\$ 19,125,186</u>		<u>\$ (227,081)</u>	<u>\$ 18,898,105</u>
Investment income for the year ended December 31, 2013	<u>\$ 121,496</u>	\$ (11,010)		<u>\$ 110,486</u>
Change in the value of beneficial interests held by third parties for the year ended December 31, 2013		<u>116,697</u>		<u>\$ 116,697</u>
Total change in net assets for the year ended December 31, 2013	<u>\$ 1,463,111</u>	<u>\$ 105,687</u>		<u>\$ 1,568,798</u>
Beneficial interests held by third parties, December 31, 2013	<u>\$ 90,399</u>	<u>\$ 1,589,569</u>		<u>\$ 1,679,968</u>
Temporarily restricted net assets, December 31, 2013	\$ 117,203	\$ 81,046	155,479	\$ 353,728
Permanently restricted net assets, December 31, 2013	<u>892,384</u>	<u>1,508,523</u>	<u>147,353</u>	<u>2,548,260</u>
Temporarily and permanently restricted net assets, December 31, 2013	<u>\$ 1,009,587</u>	<u>\$ 1,589,569</u>	<u>\$ 302,832</u>	<u>\$ 2,901,988</u>
Unrestricted net assets, January 1, 2013	<u>\$ 20,591,432</u>		<u>\$ (302,832)</u>	<u>\$ 20,288,600</u>

DAUPHIN COUNTY LIBRARY SYSTEM

OPERATING SUPPORT AND REVENUE

YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u> (Restated)
Operating support:		
Tax appropriations:		
Dauphin County	\$ 4,401,823	\$ 4,575,870
Commonwealth of Pennsylvania	1,336,575	1,336,575
Local governments	<u>128,516</u>	<u>119,145</u>
	<u>5,866,914</u>	<u>6,031,590</u>
Grants	<u>174,241</u>	<u>226,632</u>
Contributions:		
Funds and foundations	91,172	133,456
Other	<u>316,240</u>	<u>327,754</u>
	<u>407,412</u>	<u>461,210</u>
Total contributions	<u>407,412</u>	<u>461,210</u>
Total operating support	<u>6,448,567</u>	<u>6,719,432</u>
Operating revenue:		
Desk receipts	191,754	205,801
Negotiated services	45,294	34,850
Other	7,212	10,430
Printing	1,053	25,363
Workshops	267	15
Credit bureau	13,517	11,733
Miscellaneous	<u>(28,897)</u>	<u>(4,328)</u>
	<u>230,200</u>	<u>283,864</u>

(continued)

DAUPHIN COUNTY LIBRARY SYSTEM

OPERATING SUPPORT AND REVENUE (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u> (Restated)
Realized gain on sale of investment	\$ 147,469	\$ 48,981
Investment income	<u>62,720</u>	<u>61,505</u>
	<u>210,189</u>	<u>110,486</u>
Change in the fair value of:		
Beneficial interest held by third parties	(21,665)	116,697
Endowment funds held	<u>(118,979)</u>	<u>151,704</u>
	<u>(140,644)</u>	<u>268,401</u>
Total operating support and revenue	<u>\$ 6,748,312</u>	<u>\$ 7,382,183</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>

DAUPHIN COUNTY LIBRARY SYSTEM

OPERATING EXPENSES

YEAR ENDED DECEMBER 31, 2013

	<u>Library services</u>	<u>Management and general</u>	<u>Fund-raising</u>	<u>Total</u>
Operations:				
Bad debt		\$ 1,935		\$ 1,935
Bank fees		9,488		9,488
Building and equipment maintenance	\$ 314,577	61,744		376,321
Computer supplies	5,644	2,780		8,424
Depreciation:				
Buildings, furnishings and equipment	652,831	41,670		694,501
Library materials	643,707			643,707
Vehicles	3,920	1,992		5,912
Electronic library materials	85,968			85,968
Licensing and equipment rental	148,053	36,904		184,957
Freight and postage	26,640	1,541	\$ 18,763	46,944
Insurance	218,423	60,319	1,927	280,669
Interest	26,720	688		27,408
Investment fees		15,810		15,810
Memberships	14,789	7,952		22,741
Miscellaneous	788	3,378		4,166
Newspapers	20,085			20,085
On-line loan and catalog service	39,943			39,943
Outsourcing charges	11,521			11,521
Payroll taxes	209,029	42,540	847	252,416
Pension and retirement	160,451	50,613		211,064
Periodicals	99,724			99,724
Printing	50,834		13,238	64,072
Professional fees	69,523	97,037		166,560
Program expenses	244,425	3,061		247,486
Salaries	2,496,161	552,648	11,097	3,059,906
Supplies	26,730	9,143		35,873

(continued)

DAUPHIN COUNTY LIBRARY SYSTEM

OPERATING EXPENSES (CONTINUED)

YEAR ENDED DECEMBER 31, 2013

	<u>Library services</u>	<u>Management and general</u>	<u>Fund-raising</u>	<u>Total</u>
Operations (continued):				
Telephone	\$ 143,179	\$ 10,577		\$ 153,756
Travel and training	42,036	12,050		54,086
Utilities	146,243	16,134		162,377
Vehicles, repairs and maintenance	<u>23,156</u>	<u>8,585</u>		<u>31,741</u>
Total operating expenses	<u>\$ 5,925,100</u>	<u>\$ 1,048,589</u>	<u>\$ 45,872</u>	<u>\$ 7,019,561</u>