



Dauphin County Library System

**Financial Statements and
Supplementary Information**

December 31, 2021 and 2020



Dauphin County Library System

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December 31, 2021 and 2020

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Independent Auditor's Report

To the Board of Trustees
Dauphin County Library System
Harrisburg, Pennsylvania

Opinion

We have audited the financial statements of Dauphin County Library System (the Library), which comprise the statement of financial position as of December 31, 2021 and 2020, the related statements of activities, functional expenses - by natural classification, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Library as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Library and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Library's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Library's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audits.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary 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.

RKL LLP

June 13, 2022
York, Pennsylvania

Dauphin County Library System

Statement of Financial Position

	December 31,	
	2021	2020
Assets		
Cash and cash equivalents	\$ 1,240,404	\$ 1,013,183
Restricted cash	948,552	800,787
Accounts receivable	142,079	510,542
Promises to give, net	564,635	-
Prepaid expenses	210,051	214,547
Fixed assets, net	14,728,617	14,155,986
Certificates of deposit	1,448,782	1,434,757
Endowment funds held	3,870,479	3,506,576
Beneficial interests held by third parties	1,848,795	1,560,480
Total Assets	\$ 25,002,394	\$ 23,196,858
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 721,294	\$ 416,620
Accrued payroll, vacation, payroll taxes, and withholdings	277,780	273,337
Notes payable	-	666,000
Defined benefit pension plan obligation	1,619,175	1,907,166
Total Liabilities	2,618,249	3,263,123
Net Assets		
Without donor restrictions	15,090,964	15,127,400
With donor restrictions	7,293,181	4,806,335
Total Net Assets	22,384,145	19,933,735
Total Liabilities and Net Assets	\$ 25,002,394	\$ 23,196,858

Dauphin County Library System

Statement of Activities

	Year Ended December 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Totals
Support and Revenue			
Tax appropriations	\$ 5,886,356	\$ -	\$ 5,886,356
Your Place to Belong Capital Campaign	-	1,808,030	1,808,030
Contributions	371,959	477,780	849,739
Grants	245,332	-	245,332
Operating revenue	94,622	-	94,622
Net assets released from restrictions	279,628	(279,628)	-
Total Support and Revenue	6,877,897	2,006,182	8,884,079
Operating Expenses			
Library services	6,216,147	-	6,216,147
Supporting services			
Management and general	1,140,244	-	1,140,244
Fundraising	465,537	-	465,537
Total Operating Expenses	7,821,928	-	7,821,928
Net Change from Operations	(944,031)	2,006,182	1,062,151
Non-Operating Revenue			
Forgiveness of notes payable	666,000	-	666,000
Investment income, net	40,711	349,742	390,453
Changes in the fair value of			
Beneficial interests held by third parties	-	130,922	130,922
Endowment funds held	90,440	-	90,440
Pension related changes other than net periodic pension cost	110,444	-	110,444
Total Non-Operating Revenue	907,595	480,664	1,388,259
Changes in Net Assets	(36,436)	2,486,846	2,450,410
Net Assets at Beginning of Year	15,127,400	4,806,335	19,933,735
Net Assets at End of Year	\$ 15,090,964	\$ 7,293,181	\$ 22,384,145

Dauphin County Library System

Statement of Activities (continued)

	Year Ended December 31, 2020		
	Without Donor Restrictions	With Donor Restrictions	Totals
Support and Revenue			
Tax appropriations	\$ 6,632,180	\$ -	\$ 6,632,180
Your Place to Belong Capital Campaign	-	122,650	122,650
Contributions	181,153	235,517	416,670
Grants	267,853	-	267,853
Operating revenue	87,204	-	87,204
Net assets released from restrictions	178,346	(178,346)	-
Total Support and Revenue	7,346,736	179,821	7,526,557
Operating Expenses			
Library services	6,133,006	-	6,133,006
Supporting services			
Management and general	1,150,878	-	1,150,878
Fundraising	399,575	-	399,575
Total Operating Expenses	7,683,459	-	7,683,459
Net Change from Operations	(336,723)	179,821	(156,902)
Non-Operating Revenue (Expense)			
Forgiveness of notes payable	-	-	-
Investment income (loss), net	(36,312)	196,081	159,769
Changes in the fair value of			
Beneficial interests held by third parties	-	79,333	79,333
Endowment funds held	270,905	-	270,905
Pension related changes other than net periodic pension cost	(272,667)	-	(272,667)
Total Non-Operating Revenue (Expense)	(38,074)	275,414	237,340
Changes in Net Assets	(374,797)	455,235	80,438
Net Assets at Beginning of Year	15,502,197	4,351,100	19,853,297
Net Assets at End of Year	\$ 15,127,400	\$ 4,806,335	\$ 19,933,735

See accompanying notes.

Dauphin County Library System

Statement of Functional Expenses - by Natural Classification

	Year Ended December 31, 2021			
	Library Services	Supporting Services		Total
		Management and General	Fundraising	
Bank fees	\$ -	\$ 7,588	\$ -	\$ 7,588
Building and equipment maintenance	459,823	51,092	-	510,915
Depreciation				
Buildings, furnishings, and equipment	584,692	37,321	-	622,013
Library materials	871,461	-	-	871,461
Vehicles	26,348	15,474	-	41,822
Employee benefits	257,698	68,604	27,874	354,176
Freight and postage	10,428	593	12,419	23,440
Insurance	40,749	12,519	278	53,546
Licensing and equipment rental	243,436	16,035	-	259,471
Memberships	16,338	6,448	-	22,786
Miscellaneous	319	1,320	-	1,639
Newspapers	12,947	-	-	12,947
Online loan and catalog service	50,090	-	-	50,090
Outsourcing charges	1,048	-	-	1,048
Payroll taxes	196,948	54,432	21,326	272,706
Periodicals	17,743	-	-	17,743
Printing	28,842	-	26,327	55,169
Professional fees	62,730	75,276	90,820	228,826
Program expenses	287,810	-	-	287,810
Property taxes	14,971	-	-	14,971
Salaries	2,648,700	705,131	286,493	3,640,324
Supplies	26,284	5,770	-	32,054
Telephone and utilities	304,203	66,776	-	370,979
Travel and training	34,611	7,598	-	42,209
Vehicles, repairs, and maintenance	17,928	8,267	-	26,195
	\$ 6,216,147	\$ 1,140,244	\$ 465,537	\$ 7,821,928

Dauphin County Library System

Statement of Functional Expenses - by Natural Classification (continued)

	Year Ended December 31, 2020			
	Library Services	Supporting Services		Total
		Management and General	Fundraising	
Bank fees	\$ -	\$ 6,841	\$ -	\$ 6,841
Building and equipment maintenance	400,782	44,531	-	445,313
Depreciation				
Buildings, furnishings, and equipment	600,625	38,338	-	638,963
Library materials	815,411	-	-	815,411
Vehicles	28,614	16,805	-	45,419
Employee benefits	254,073	67,588	27,629	349,290
Freight and postage	14,296	813	17,024	32,133
Insurance	39,653	12,183	271	52,107
Licensing and equipment rental	216,219	14,242	-	230,461
Memberships	21,692	8,562	-	30,254
Miscellaneous	567	2,349	-	2,916
Newspapers	15,801	-	-	15,801
Online loan and catalog service	50,527	-	-	50,527
Outsourcing charges	1,048	-	-	1,048
Payroll taxes	207,234	51,158	21,617	280,009
Periodicals	66,080	-	-	66,080
Printing	23,136	-	21,118	44,254
Professional fees	64,466	75,988	19,117	159,571
Program expenses	184,670	-	-	184,670
Property taxes	14,971	-	-	14,971
Salaries	2,692,569	716,266	292,799	3,701,634
Supplies	54,067	11,868	-	65,935
Telephone and utilities	314,810	69,105	-	383,915
Travel and training	39,720	8,719	-	48,439
Vehicles, repairs, and maintenance	11,975	5,522	-	17,497
	<u>\$ 6,133,006</u>	<u>\$ 1,150,878</u>	<u>\$ 399,575</u>	<u>\$ 7,683,459</u>

Dauphin County Library System

Statement of Cash Flows

	Years Ended December 31,	
	2021	2020
Cash Flows from Operating Activities		
Changes in net assets	\$ 2,450,410	\$ 80,438
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	1,535,296	1,499,793
In-kind contributions for library materials	(4,623)	(6,883)
Net unrealized and realized investment gains	(432,094)	(364,822)
Change in fair value of beneficial interests held by third parties	(130,922)	(79,333)
Contributions restricted for endowment	(27,134)	(35,677)
Contributions restricted for fixed assets	(1,815,842)	(122,650)
Change in unamortized discount - promises to give	7,812	-
Forgiveness of notes payable	(666,000)	-
Contributions restricted for beneficial interests held by third parties	(157,393)	-
(Increase) decrease in assets		
Accounts receivable	368,463	(419,312)
Prepaid expenses	4,496	32,516
Increase (decrease) in liabilities		
Accounts payable	(58,664)	218,107
Accrued payroll, vacation, payroll taxes, and withholdings	4,443	(98,864)
Defined benefit pension plan obligation	(287,991)	128,991
Net Cash Provided by Operating Activities	790,257	832,304
Cash Flows from Investing Activities		
Proceeds from sales of investments	151,006	246,708
Purchase of investments	(82,815)	(101,324)
Proceeds from liquidation of certificates of deposit	-	103,074
Purchase of certificates of deposit - including reinvested interest	(14,025)	(18,782)
Purchase of fixed assets	(1,739,966)	(1,614,391)
Net Cash Used in Investing Activities	(1,685,800)	(1,384,715)
Cash Flows from Financing Activities		
Proceeds from notes payable	-	834,000
Principal payments on notes payable	-	(168,000)
Cash received restricted for endowment	27,134	35,677
Cash received restricted for fixed assets	1,243,395	122,650
Net Cash Provided by Financing Activities	1,270,529	824,327
Net Increase in Cash and Cash Equivalents and Restricted Cash	374,986	271,916
Cash and Cash Equivalents and Restricted Cash at Beginning of Year	1,813,970	1,542,054
Cash and Cash Equivalents and Restricted Cash at End of Year	\$ 2,188,956	\$ 1,813,970
Supplementary Schedule of Noncash Investing Activities		
Purchase of fixed assets in accounts payable	\$ (378,862)	\$ (15,524)
Cash and Cash Equivalents and Restricted Cash is Comprised of the Following on the Statement of Financial Position		
Cash and cash equivalents	\$ 1,240,404	\$ 1,013,183
Restricted cash	948,552	800,787
	\$ 2,188,956	\$ 1,813,970

See accompanying notes.

Dauphin County Library System

Notes to Financial Statements

December 31, 2021 and 2020

Note 1 - Nature of Operations

The Dauphin County Library System (the Library) is a nonprofit corporation offering 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 included in the Library have increasingly become community centers for discussion classes, workshops and seminars, seasonal events, and for meetings of senior citizens' organizations and similar civic groups. The Library's primary sources of support and revenue are tax appropriations and contributions.

Management and general activities include the functions necessary to provide for the Library's program activities. They include activities that provide governance (Board of Trustees), oversight, business management, financial recordkeeping, budgeting, legal services, human resource management, and similar functions that ensure an adequate working environment and an equitable employment program.

Fundraising activities include publicizing and conducting fundraising campaigns, when needed, maintaining donor lists, conducting special fundraising events; and other activities involved with soliciting from corporations, foundations, individuals and others.

Note 2 - Summary of Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Financial Statement Presentation

The Library follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Not-for-Profit Entities - Presentation of Financial Statements*. Under ASC 958-205, the Library reports net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors as follows:

Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting for the nature of the organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered in to during its operations.

Net assets without donor restrictions include \$1,048,535 and \$1,061,508 of board-designated net assets as of December 31, 2021 and 2020, respectively. These net assets were specifically designated by the Board of Trustees to function as an endowment.

Dauphin County Library System

Notes to Financial Statements

December 31, 2021 and 2020

Note 2 - Summary of Significant Accounting Policies (continued)

Financial Statement Presentation (continued)

Net assets with donor restrictions are resources that are restricted by a donor for use for a purpose or in a future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Library must continue to use the resources in accordance with the donor's instructions.

The Library's unspent contributions are included in this class if the donor limited their use, as are its donor-restricted endowment funds and its beneficial interest in a perpetual charitable trust held by a bank trustee.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of fixed assets (or less commonly, the contribution of those assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by the Library, unless the donor provides more specific directions about the period of its use.

All support and revenue and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the donor specified the use of the related resources for a purpose or in a future period. All expenses and net losses other than losses on endowment investments with donor restrictions are reported as decreases in net assets without donor restrictions. Net gains on endowment investments with donor restrictions increase net assets with donor restrictions, and net losses on endowment investments with donor restrictions reduce that net asset class.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, if any, at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, the Library's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Library's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Cash and Cash Equivalents

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

Note 2 - Summary of Significant Accounting Policies (continued)

Concentration of Credit Risk

The Library maintains its cash balances with local banks. Periodically, the Library has cash balances on deposit with banks that exceed the Federal Deposit Insurance Corporation insured amounts. The Library has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash balances.

Accounts Receivable

Accounts 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 having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year end will be immaterial. There was no allowance for doubtful accounts as of December 31, 2021 and 2020.

Promises to Give

Promises to give are stated at their outstanding balances. Promises to give are recognized when the Library is notified of the promises. The Library considers promises to give to be fully collectible. If collection becomes doubtful, an allowance for uncollectible promises to give will be established, or the accounts will be charged against income when that determination is made by management. Unpaid balances remaining after the stated payment terms are considered past due. Recoveries of previously charged off promises are recorded when received. All promises to give as of December 31, 2021 are considered collectible, and therefore, no allowance for doubtful accounts is deemed necessary. Promises to give that are expected to be received in more than one year are discounted to present value using a risk-adjusted rate of return.

Fixed Assets

Fixed assets are recorded at cost if purchased, or at the estimated fair market value at the date of the gift, if contributed. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. All fixed 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. Cost and accumulated depreciation of fixed assets sold or retired are removed from the accounts, and any resulting gain or loss is included in operations. Construction in progress is stated at cost and represents costs incurred on projects which were not completed as of the date of the statement of financial position. These costs are not depreciated until the underlying assets are placed into service.

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of the assets may not be recoverable. An asset is considered to be impaired when the undiscounted estimated net cash flows to be generated by the asset are less than the carrying amount. The impairment recognized is the amount by which the carrying amount exceeds the fair value amount. Fair value estimates are based on assumptions concerning the amount and timing of the estimated future cash flows and the discount rates reflecting varying degrees of perceived risk. Management of the Library has concluded that no impairment adjustments were required during the years ended December 31, 2021 and 2020.

Dauphin County Library System

Notes to Financial Statements

December 31, 2021 and 2020

Note 2 - Summary of Significant Accounting Policies (continued)

Beneficial Interests Held by Third Parties

Beneficial interests held by third parties 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.

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 financial 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. These services do not meet the criteria for recognition as contributed services, and are not reflected in the accompanying financial statements.

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.

Revenue Recognition

Tax Appropriations

Tax appropriation revenue represents amounts received from Dauphin County, Pennsylvania from a dedicated real estate tax collected and amounts received from Lower Paxton Township from real estate tax assessments. Additionally, the Commonwealth of Pennsylvania contributes amounts which are also determined annually. Tax appropriation revenue is recorded when received or receivable. Tax appropriation revenue is not deemed to be in respect of exchange transactions since the proceeds thereof are non-reciprocal, unconditional, and voluntary.

Contributions

The Library recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

All contributions are reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions.

Dauphin County Library System

Notes to Financial Statements

December 31, 2021 and 2020

Note 2 - Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Grants

Grant revenue deemed to be a contribution is classified as support with donor restrictions when received or receivable. Such grant revenue is not deemed to be in respect of exchange transactions, since the proceeds thereof are non-reciprocal, unconditional, and voluntary.

Grant revenue deemed to be in respect of exchange transactions is classified as support without donor restrictions or deferred revenue, as appropriate, when received or receivable. Such grant revenue is not deemed to be a contribution since the proceeds thereof are used to pursue objectives of the grantor.

Endowment Funds

The Library's endowment funds 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.

Pennsylvania Act 141 requires 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 net assets with donor restrictions the original value of gifts donated to the perpetual endowment and the original value of subsequent gifts to the perpetual endowment. The remaining portion of the donor-restricted endowment fund that is not classified as perpetual in nature is classified as net assets with donor restrictions for a specified purpose 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.

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. Management believes the Library continues to be operated in such a manner that is in compliance with its federal and state income tax exemption.

The Library follows the standards for accounting for uncertainty in income taxes according to the principles of FASB ASC 740, *Income Taxes*, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It requires management to evaluate tax positions taken by the Library, including whether the entity is exempt from income taxes. Management evaluated the tax positions taken and concluded that the Library had taken no uncertain tax positions that require recognition or disclosure in the financial statements. With few exceptions, the Library is no longer subject to income tax examinations by the U.S. Federal, state, or local tax authorities for years before December 31, 2018.

Note 2 - Summary of Significant Accounting Policies (continued)

Expense Recognition and Allocation

The cost of providing the Library's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses - by natural classification. Expenses that can be identified with a specific program or supporting service are charged directly to that program or supporting service. Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

Salaries, employee benefits, and payroll taxes are allocated based on departmental breakdowns used in processing payroll.

Occupancy expenses and depreciation are allocated on a square foot basis dependent on the programs and supporting activities occupying the space.

Telephone and internet services, insurance, supplies, and miscellaneous expenses that cannot be directly identified with a specific program or supporting service are allocated based on employee headcount for each library branch. Most of these expenses are allocated to Library services as these expenses primarily serve the public with a small portion serving administrative functions.

Management and general expenses include those costs that are not directly identifiable with a specific program, but which provide for the overall support and direction of the Library.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The Library generally does not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, such as when the annual report or donor acknowledgements contain requests for contributions, joint costs have been allocated between fundraising and management and general expenses in accordance with standards for accounting for costs of activities that include fundraising.

Advertising

The Library follows the policy of charging the cost of advertising to expense when incurred. Amounts charged to expense for advertising were \$27,729 and \$20,377 for the years ended December 31, 2021 and 2020, respectively.

Note 2 - Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, and subsequently amended in ASU 2019-10 and 2020-05. The guidance in these ASUs supersedes the leasing guidance in Topic 840, *Leases*, which sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases, based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases, and operating leases. The new standard is effective for privately held companies for fiscal years beginning after December 15, 2021, including interim periods within fiscal years beginning after December 15, 2022.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which will require not-for-profit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. Also, this ASU will require disclosure of a disaggregation of the amount of contributed nonfinancial assets by category that depicts the type of contributed nonfinancial assets as well as additional information around valuation and usage of the contributed nonfinancial assets. The amendments in this standard should be applied on a retrospective basis and are effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022.

The Library is currently evaluating the pending adoption of the new standards on the financial statements.

Dauphin County Library System

Notes to Financial Statements

December 31, 2021 and 2020

Note 3 - Liquidity and Availability

Financial assets available for general expenditures, that is, without donor restrictions or other designations limiting their use, within one year of the statement of financial position date comprise the following as of December 31:

	<u>2021</u>	<u>2020</u>
Financial Assets		
Cash and cash equivalents	\$ 1,240,404	\$ 1,013,183
Restricted cash	948,552	800,787
Accounts receivable	142,079	510,542
Promises to give, net	564,635	-
Certificates of deposit	1,448,782	1,434,757
Endowment funds held	3,870,479	3,506,576
Beneficial interests held by third parties	1,848,795	1,560,480
Total Financial Assets	<u>10,063,726</u>	<u>8,826,325</u>
Amounts Not Available to be Used for General Expenditures Within One Year		
Purpose restricted net assets	(1,763,187)	(800,787)
Donor-restricted endowment funds	(4,670,739)	(4,005,548)
Board-designated endowment funds	(1,048,535)	(1,061,508)
Total Amounts Not Available to be Used for General Expenditures Within One Year	<u>(7,482,461)</u>	<u>(5,867,843)</u>
Financial Assets Available to be Used for General Expenditures Within One Year	<u>\$ 2,581,265</u>	<u>\$ 2,958,482</u>

As part of the Library's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

The above table reflects donor-restricted and board-designated endowment funds as unavailable because it is the Library's intention to invest those resources for the long-term support of the Library. However, in the case of need, the Board of Trustees could appropriate resources from the board-designated endowment funds.

The Library's goal is generally to maintain financial assets to meet three to six months of budgeted operating expenses (approximately \$1,900,000 to \$3,900,000). As part of its liquidity plan, excess cash is invested in certificates of deposit and money market accounts.

The Library has a \$350,000 line of credit available to meet cash flow needs (refer to Note 17).

Dauphin County Library System

Notes to Financial Statements

December 31, 2021 and 2020

Note 4 - Grants

Grant revenue recognized is as follows for the years ended December 31:

	<u>2021</u>	<u>2020</u>
E-rate program	\$ 146,254	\$ 140,724
Other grants	51,578	93,796
Educational Improvement Tax Credit program	47,500	33,333
	<u>\$ 245,332</u>	<u>\$ 267,853</u>

Note 5 - Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents and restricted cash consist of the following as of December 31:

	<u>2021</u>	<u>2020</u>
Money market and savings	\$ 1,724,931	\$ 1,452,532
Checking	462,745	360,158
Petty cash	1,280	1,280
	<u>\$ 2,188,956</u>	<u>\$ 1,813,970</u>

Note 6 - Promises to Give

Promises to give - Your Place to Belong Capital Campaign represents funds raised for the renovation and restoration of the McCormick Riverfront Library and the Haldeman Haly House. The promises to give that were acquired during the year ended December 31, 2021 and are expected to be collected in more than one year, are discounted to present value using a risk-adjusted rate of return of 1.52%.

Promises to give consist of the following as of December 31:

	<u>2021</u>	<u>2020</u>
Promises to give - Your Place to Belong Capital Campaign	\$ 572,447	\$ -
Unamortized discount	(7,812)	-
	<u>\$ 564,635</u>	<u>\$ -</u>
Current portion	\$ 438,753	\$ -
Noncurrent portion	125,882	-
	<u>\$ 564,635</u>	<u>\$ -</u>

Dauphin County Library System

Notes to Financial Statements

December 31, 2021 and 2020

Note 6 - Promises to Give (continued)

Due dates of promises to give, assuming no changes in current terms, consist of the following for the remaining four years ending December 31:

2022	\$	438,753
2023		85,654
2024		26,040
2025		22,000
		<u>22,000</u>
	\$	<u>572,447</u>

Note 7 - Fixed Assets

The cost and related accumulated depreciation of fixed assets are as follows as of December 31:

	<u>2021</u>	<u>2020</u>
Buildings, furnishings, and equipment	\$ 21,690,950	\$ 21,586,491
Library materials	3,942,598	3,679,207
Construction in progress*	1,496,874	412,495
Land*	922,455	922,455
Vehicles	245,075	245,075
	<u>28,297,952</u>	<u>26,845,723</u>
Accumulated depreciation	<u>(13,569,335)</u>	<u>(12,689,737)</u>
	<u>\$ 14,728,617</u>	<u>\$ 14,155,986</u>

* Not depreciated

A reconciliation of Library materials is as follows for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Cost of materials at beginning of year	\$ 3,679,207	\$ 3,596,223
Materials purchased and donated	919,089	854,665
Materials fully depreciated and deleted	<u>(655,698)</u>	<u>(771,681)</u>
	<u>\$ 3,942,598</u>	<u>\$ 3,679,207</u>

Dauphin County Library System

Notes to Financial Statements

December 31, 2021 and 2020

Note 8 - 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 entities 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 levels of the fair value hierarchy under FASB ASC 820 are described as follows:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date 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).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following valuation techniques were used to measure fair value of assets in the tables on the following pages on a recurring basis as of December 31, 2021 and 2020:

Investments in certificates of deposit and cash and cash equivalents - The carrying amounts of certificates of deposit and cash and cash equivalents approximate fair value because of the short-term nature of those investments.

Investments in mutual funds, fixed income, and other - Fair value of mutual funds, fixed income, and other investments was based on quoted market prices for the identical security.

Beneficial interests held by third parties - Fair value of beneficial interests held by third parties was based on the Library's ownership interest of the funds as determined by the third parties. The funds' assets were valued based on the performance of underlying investments as well as an administrative fee.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Library believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Library's financial instruments also include cash and cash equivalents, accounts receivable, and accounts payable. The carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximate fair value as of December 31, 2021 and 2020 because of the short maturities of those instruments.

Dauphin County Library System

Notes to Financial Statements

December 31, 2021 and 2020

Note 8 - Fair Value Measurements (continued)

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

	Fair Value Measurements as of December 31, 2021			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Certificates of Deposit	<u>\$ 1,448,782</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,448,782</u>
Endowment Funds Held				
Cash and cash equivalents	<u>\$ 219,490</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 219,490</u>
Mutual funds				
Large cap	1,541,453	-	-	1,541,453
International	559,492	-	-	559,492
Small/mid cap	<u>444,986</u>	<u>-</u>	<u>-</u>	<u>444,986</u>
Total Mutual Funds	<u>2,545,931</u>	<u>-</u>	<u>-</u>	<u>2,545,931</u>
Fixed income				
Multi-sector	886,880	-	-	886,880
U.S. Treasuries	<u>42,978</u>	<u>-</u>	<u>-</u>	<u>42,978</u>
Total Fixed Income	<u>929,858</u>	<u>-</u>	<u>-</u>	<u>929,858</u>
Other				
Long/short equity	107,108	-	-	107,108
Multi-strategy	<u>68,092</u>	<u>-</u>	<u>-</u>	<u>68,092</u>
Total Other	<u>175,200</u>	<u>-</u>	<u>-</u>	<u>175,200</u>
Total Endowment Funds Held	<u>\$ 3,870,479</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,870,479</u>
Beneficial Interests Held by Third Parties	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,848,795</u>	<u>\$ 1,848,795</u>

Dauphin County Library System

Notes to Financial Statements

December 31, 2021 and 2020

Note 8 - Fair Value Measurements (continued)

	Fair Value Measurements as of December 31, 2020			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Certificates of Deposit	<u>\$ 1,434,757</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,434,757</u>
Endowment Funds Held				
Cash and cash equivalents	<u>\$ 126,048</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 126,048</u>
Mutual funds				
Large cap	1,417,906	-	-	1,417,906
International	443,444	-	-	443,444
Small/mid cap	<u>458,581</u>	<u>-</u>	<u>-</u>	<u>458,581</u>
Total Mutual Funds	<u>2,319,931</u>	<u>-</u>	<u>-</u>	<u>2,319,931</u>
Fixed income				
Multi-sector	834,583	-	-	834,583
High yield	<u>54,762</u>	<u>-</u>	<u>-</u>	<u>54,762</u>
Total Fixed Income	<u>889,345</u>	<u>-</u>	<u>-</u>	<u>889,345</u>
Other				
Long/short equity	102,631	-	-	102,631
Multi-strategy	<u>68,621</u>	<u>-</u>	<u>-</u>	<u>68,621</u>
Total Other	<u>171,252</u>	<u>-</u>	<u>-</u>	<u>171,252</u>
Total Endowment Funds Held	<u>\$ 3,506,576</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,506,576</u>
Beneficial Interests Held by Third Parties	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,560,480</u>	<u>\$ 1,560,480</u>

Changes in Fair Value Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

The Library evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets. During the year ended December 31, 2021, contributions related to beneficial interests held by third parties, classified as Level 3, amounted to \$157,393. There were no other transfers in or out of Level 3 assets during the years ended December 31, 2021 and 2020.

Dauphin County Library System

Notes to Financial Statements

December 31, 2021 and 2020

Note 9 - Endowment Funds Held

Endowment funds held were as follows as of December 31:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Cash and Cash Equivalents	\$ 219,490	\$ 219,490	\$ 126,048	\$ 126,048
Mutual Funds				
Large cap	1,201,416	1,541,453	1,136,982	1,417,906
International	486,897	559,492	369,161	443,444
Small/mid cap	305,026	444,986	368,045	458,581
Total Mutual Funds	1,993,339	2,545,931	1,874,188	2,319,931
Fixed Income				
Multi-sector	882,172	886,880	808,570	834,583
U.S. Treasuries	42,978	42,978	-	-
High yield	-	-	54,361	54,762
Total Fixed Income	925,150	929,858	862,931	889,345
Other				
Long/short equity	98,653	107,108	99,421	102,631
Multi-strategy	63,848	68,092	64,429	68,621
Total Other	162,501	175,200	163,850	171,252
	\$ 3,300,480	\$ 3,870,479	\$ 3,027,017	\$ 3,506,576

Investment income, net and changes in the fair value of endowment funds held are summarized as follows for the years ended December 31:

	2021	2020
Realized investment gains	\$ 341,655	\$ 93,917
Dividends and interest, net	48,798	65,852
	390,453	159,769
Unrealized investment gains	90,440	270,905
	\$ 480,893	\$ 430,674

Dauphin County Library System

Notes to Financial Statements

December 31, 2021 and 2020

Note 10 - 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 trusts were established by persons, wills, living trust agreements, and court decrees with various restrictions. The entire balance is reported as net assets with donor restrictions.

The amounts recorded in the Library's statement of financial position include the following as of December 31:

	<u>2021</u>	<u>2020</u>
Ida Browning	\$ 171,944	\$ 161,955
Edith Demain	452,783	427,732
Robert Hanson	75,819	61,536
William Donaldson (under agreement)	125,251	115,231
William Donaldson (under will)	696,118	507,503
Charlotte L. Shuey	261,778	241,227
Thomas Wierman	65,102	45,296
	<u>\$ 1,848,795</u>	<u>\$ 1,560,480</u>

Note 11 - Notes Payable

On March 27, 2020, Congress enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) which established the Paycheck Protection Program (the Program). The Program was created to assist small businesses in paying their employees and certain other expenses during the COVID-19 crisis (refer to Note 20). The Library applied for a loan under this Program and received from M&T Bank, a loan in the amount of \$834,000 on April 17, 2020. On May 14, 2020, the Library repaid \$168,000 of the loan. The unpaid portion of the loan was forgivable if the Library met certain criteria as established under the Program. The loan was unsecured and did not require personal guarantees. In February 2021, the Library was notified by M&T Bank that the outstanding loan balance had been forgiven in full by the Small Business Administration.

On December 30, 2021, the Library entered into a loan agreement with M&T Bank. The proceeds from the loan will be used to finance construction costs related to the renovation and restoration of the McCormick Riverfront Library and the Haldeman Haly House. The note is a draw down note and provides for borrowings up to \$3,500,000. The Library is able to draw down the principal balance of the note in multiple advances during the construction loan period which extends from the date of the note through the date the loan converts to a permanent loan. The conversion date will be the earlier of the payment due date in the calendar month that is the eighteenth month from the date of the note, or the first payment due date following the date the final advance is made to the Library. During the construction loan period, interest will be charged at a variable rate equal to 0.25% below the Bank's daily prime rate with a floor of 0.00%. Interest only payments will be due monthly during the construction loan period. After converting to a permanent loan, interest will be a fixed rate at 2.00% above the Bank's Cost of Funds rate as of the conversion date. After the loan converts to a permanent loan, monthly principal and interest payments will be required. The maturity date of the loan shall be 240 months following the conversion date. The loan is collateralized by the properties on North Front Street (McCormick Riverfront Library and Haldeman Haly House) as well as our Ethel Street property (East Shore Area Library). There were no borrowings against the loan as of December 31, 2021.

Dauphin County Library System

Notes to Financial Statements

December 31, 2021 and 2020

Note 12 - Endowment Funds

The long-term objective of endowment funds is to pursue a set of objectives designed to maximize the returns of the endowment funds without exposing the funds to undue risk. In order to meet its goals, the investment strategy of the endowment funds 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 and cash equivalents, mutual funds, fixed income instruments, and other equity securities that meet the investment strategy. The objective may also be achieved by use of alternative investments that meet the investment strategy.

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

In order to achieve objectives for the assets, the endowment funds 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 are as follows for the years ended December 31:

	Without Donor Restrictions - Board Designated	With Donor Restrictions	Total
December 31, 2019	\$ 1,073,828	\$ 3,694,457	\$ 4,768,285
Net investment gain (loss)	(12,320)	275,414	263,094
Contributions	-	35,677	35,677
December 31, 2020	1,061,508	4,005,548	5,067,056
Net investment gain (loss)	(12,973)	480,664	467,691
Contributions	-	184,527	184,527
December 31, 2021	\$ 1,048,535	\$ 4,670,739	\$ 5,719,274

Dauphin County Library System

Notes to Financial Statements

December 31, 2021 and 2020

Note 13 - Net Assets

Net assets consist of the following as of December 31:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets			
Funds invested in perpetuity			
Carole DeSoto Fund, Elizabethville Arts Series	\$ -	\$ 110,068	\$ 110,068
Joan Y. Leopold Fund, Children's Book Week	-	275,595	275,595
Kathryn Witmer Sandel Memorial Fund, materials for the William H. and Marion C. Alexander Family Library	-	26,452	26,452
Henry and Dottie Swartz Fund, East Shore Area Library materials and expansion	-	944,638	944,638
Light the Way to Learning	-	558,495	558,495
Beneficial interests held by third parties	-	1,848,795	1,848,795
Other endowment funds	-	906,696	906,696
Designated by the Board of Trustees to function as an endowment	1,048,535	-	1,048,535
Total Endowment Net Assets	1,048,535	4,670,739	5,719,274
Purpose Restricted Net Assets			
Library materials	-	437,162	437,162
Building renovations	-	2,185,280	2,185,280
Total Purpose Restricted Net Assets	-	2,622,442	2,622,442
Net Assets Without Donor Restrictions			
Defined benefit pension reserve	2,467,126	-	2,467,126
Other	11,575,303	-	11,575,303
Total Net Assets Without Donor Restrictions	14,042,429	-	14,042,429
Total Net Assets	\$ 15,090,964	\$ 7,293,181	\$ 22,384,145

Dauphin County Library System

Notes to Financial Statements

December 31, 2021 and 2020

Note 13 - Net Assets (continued)

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets			
Funds invested in perpetuity			
Carole DeSoto Fund, Elizabethville Arts Series	\$ -	\$ 99,971	\$ 99,971
Joan Y. Leopold Fund, Children's Book Week	-	236,111	236,111
Kathryn Witmer Sandel Memorial Fund, materials for the William H. and Marion C. Alexander Family Library	-	23,222	23,222
Henry and Dottie Swartz Fund, East Shore Area Library materials and expansion	-	861,917	861,917
Light the Way to Learning	-	468,245	468,245
Beneficial interests held by third parties	-	1,560,480	1,560,480
Other endowment funds	-	755,602	755,602
Designated by the Board of Trustees to function as an endowment	1,061,508	-	1,061,508
Total Endowment Net Assets	1,061,508	4,005,548	5,067,056
Purpose Restricted Net Assets			
Library materials	-	423,537	423,537
Building renovations	-	377,250	377,250
Total Purpose Restricted Net Assets	-	800,787	800,787
Net Assets Without Donor Restrictions			
Defined benefit pension reserve	2,577,570	-	2,577,570
Other	11,488,322	-	11,488,322
Total Net Assets Without Donor Restrictions	14,065,892	-	14,065,892
Total Net Assets	\$ 15,127,400	\$ 4,806,335	\$ 19,933,735

Note 14 - Net Assets Released from Restrictions

Net assets released from donor restrictions, which include construction costs, library materials, programming, and other items, were \$279,628 and \$178,346 for the years ended December 31, 2021 and 2020, respectively.

Dauphin County Library System

Notes to Financial Statements

December 31, 2021 and 2020

Note 15 - Defined Benefit Pension Plan

The Library has a defined benefit pension plan covering employees who meet age and service requirements. Effective January 1, 2017, no new employees may enter the plan. The Library's defined benefit 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, 2017, no employee contributions are required.

Effective January 1, 2018, the Library amended the plan to cease benefit accruals and the crediting of hours of service for purposes of accruing additional years of services benefit. As a result, each participant will receive a monthly benefit payable at normal retirement age equal to his or her normal retirement benefit as determinable under the terms of the plan in effect as of January 1, 2018, taking into account years of benefit service and compensation as of that date. A participant's accrued benefit at any time equals the amount of his or her accrued benefit under the plan as of January 1, 2018.

In addition, the plan was amended to provide a lump-sum optional form of benefit payment, regardless of the present value of the lump-sum. The plan was also amended to permit employees who meet the normal retirement age requirements to commence benefits under the plan while remaining employed by the Library.

The following tables set forth by level, within the fair value hierarchy (refer to Note 8), the plan's investments at fair value as of December 31:

	2021	
	Fair Value	(Level 1)
Cash and Cash Equivalents	\$ 33,416	\$ 33,416
Mutual Funds		
Equity funds	3,253,479	3,253,479
Fixed income funds	2,101,029	2,101,029
	<u>\$ 5,387,924</u>	<u>\$ 5,387,924</u>
	2020	
Cash and Cash Equivalents	\$ 33,328	\$ 33,328
Mutual Funds		
Equity funds	3,188,188	3,188,188
Fixed income funds	2,094,488	2,094,488
	<u>\$ 5,316,004</u>	<u>\$ 5,316,004</u>

Dauphin County Library System

Notes to Financial Statements

December 31, 2021 and 2020

Note 15 - Defined Benefit Pension Plan (continued)

The following table sets forth the plan's funded status and amounts recognized in the accompanying statement of financial position as of December 31:

	<u>2021</u>	<u>2020</u>
Change in Benefit Obligation		
Projected benefit obligation at beginning of year	\$ 7,223,170	\$ 6,926,337
Change due to change in assumptions	226,303	633,281
Interest cost	172,810	215,957
Experience gains	(91,208)	(66,468)
Benefit payments	<u>(523,976)</u>	<u>(485,937)</u>
Projected benefit obligation at end of year	<u>7,007,099</u>	<u>7,223,170</u>
Change in Plan Assets		
Fair value of plan assets at beginning of year	5,316,004	5,148,162
Employer contributions	43,815	43,815
Actual return on plan assets	552,081	609,964
Benefit payments (including assumed expenses)	<u>(523,976)</u>	<u>(485,937)</u>
Fair value of plan assets at end of year	<u>5,387,924</u>	<u>5,316,004</u>
Funded Status and Accrued Pension Liability	<u>\$ (1,619,175)</u>	<u>\$ (1,907,166)</u>

The Library's net assets without donor restrictions include \$2,467,126 and \$2,577,570 of net loss not yet recognized in net periodic pension expense as of December 31, 2021 and 2020, respectively. It is estimated that approximately \$126,000 of the net loss included in changes in net assets will be recognized in net periodic pension expense during the year ending December 31, 2022.

The accumulated benefit obligation amounted to \$7,007,099 and \$7,223,170 as of December 31, 2021 and 2020, respectively.

Net periodic pension expense included the following components for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Interest cost	\$ 172,810	\$ 215,957
Net amortization of prior service cost, transition obligation, and net loss	126,655	103,497
Expected return on plan assets	<u>(433,197)</u>	<u>(419,315)</u>
Net Periodic Pension Cost	<u>\$ (133,732)</u>	<u>\$ (99,861)</u>

The plan's funded status as of any measurement date is based on prevailing market conditions as to discount rate and plan assets and, accordingly, is subject to volatility.

Dauphin County Library System

Notes to Financial Statements

December 31, 2021 and 2020

Note 15 - Defined Benefit Pension Plan (continued)

The following weighted average rates were used in determining the actuarial present value of the projected benefit obligations and the related net periodic pension cost as of December 31:

	<u>2021</u>	<u>2020</u>
Discount rate	3.00 %	2.50 %
Expected long-term rate of return on plan assets	8.50	8.50

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 8.50%.

Benefits expected to be paid to participants in each of the next five years and in the aggregate for the subsequent years thereafter are as follows:

2022	\$ 397,806
2023	389,211
2024	387,168
2025	385,638
2026	395,975
2027 to 2031	1,959,337

The Library uses the straight-line method to amortize prior service cost over the average remaining service periods of employees expected to receive benefits under the plan.

Since the plan was amended to freeze benefit accruals on January 1, 2018, no contribution is anticipated for the year ended December 31, 2022.

The investment allocation of plan assets consists of the following as of December 31:

	<u>2021</u>	<u>2020</u>
Cash and Cash Equivalents	0.60 %	0.60 %
Mutual Funds		
Equity funds	60.40	60.00
Fixed income funds	39.00	39.40
	<u>100.00 %</u>	<u>100.00 %</u>

Dauphin County Library System

Notes to Financial Statements

December 31, 2021 and 2020

Note 15 - Defined Benefit Pension Plan (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 funds	40 to 80 %
Fixed income funds	20 to 60
Cash and cash equivalents	0 to 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.

Note 16 - Defined Contribution Pension Plan

On December 31, 2016, the Library froze entrance into the defined benefit pension plan for all employees who did not qualify to enter the defined benefit pension plan as of July 1, 2016. On December 31, 2016, the Library also established a defined contribution pension plan under Internal Revenue Code Section 401(a). The defined contribution pension plan applies to all employees who qualified for pension benefits after July 1, 2016 and were not eligible to participate in the defined benefit pension plan. In addition, all employees formerly participating in the defined benefit pension plan who remained employed with the Library as of December 31, 2016, were enrolled in the defined contribution pension plan as of that date and were fully vested.

An employee becomes a participant in the defined contribution pension plan on the June 30 or December 31 after the date he or she completes one year of eligible service. An employee is credited with a year of eligible service when he or she completes at least 1,000 hours of service in a 12-month period. Employees vest in the defined contribution pension plan as follows:

<u>Years of Service</u>	<u>Vesting Percentage</u>
Less than 1	0 %
2	20
3	40
4	60
5	80
6 or more	100

As of December 31, 2021, there were 107 active members in the defined contribution pension plan and 7 vested former members. Contributions to the plan during the years ended December 31, 2021 and 2020 totaled \$87,895 and \$94,149, respectively. At December 31, 2021 and 2020, these contributions were included in accounts payable.

Dauphin County Library System

Notes to Financial Statements

December 31, 2021 and 2020

Note 17 - Line of Credit

The Library has an unsecured \$350,000 line of credit with M&T Bank. Interest is charged at 1.00% above the bank's prime rate, which was 4.25% as of December 31, 2021 and 2020. There were no borrowings on the line of credit at December 31, 2021 and 2020.

Note 18 - Commitments

The Library leases various operating equipment under operating leases. Rent expense under these agreements amounted to \$111,967 and \$86,208 for the years ended December 31, 2021 and 2020, respectively. Future minimum lease payments, assuming no changes in current terms, consist of the following for the remaining five years ending December 31:

2022	\$	102,625
2023		65,014
2024		31,082
2025		31,082
2026		20,721
		<hr/>
	\$	250,524

As of December 31, 2021, the Library has contracts related to renovation and restoration of the McCormick Riverfront Library and the Haldeman Haly House amounting to approximately \$4,458,000. As of December 31, 2021, the Library has incurred approximately \$1,120,000 of this total.

Note 19 - Economic Dependency

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 \$4,713,450 and \$4,568,691 for the years ended December 31, 2021 and 2020, respectively. In addition, the Commonwealth of Pennsylvania contributes amounts which are also determined annually. These amounts totaled \$1,039,746 and \$1,931,310 for the years ended December 31, 2021 and 2020, respectively. Also, Lower Paxton Township provided \$133,160 and \$132,179 from real estate tax assessments for the years ended December 31, 2021 and 2020, respectively. In total, during the years ended December 31, 2021 and 2020, approximately 66% and 88%, respectively, of the Library's support and revenue consisted of these tax appropriations.

Note 20 - Risks and Uncertainties

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. The actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economy, financial markets, public support, and the geographical area in which the Library operates. It is unknown how long these conditions will last and what the complete financial effect will be to the Library.

Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions.

Dauphin County Library System

Notes to Financial Statements

December 31, 2021 and 2020

Note 21 - Subsequent Events

The Library has evaluated subsequent events through June 13, 2022. This date is the date the financial statements were available to be issued. No material events subsequent to December 31, 2021 were noted.

Dauphin County Library System

Schedule of Operating and Non-Operating Support and Revenue

	Years Ended December 31,	
	2021	2020
Operating Support		
Tax Appropriations		
Dauphin County	\$ 4,713,450	\$ 4,568,691
Commonwealth of Pennsylvania	1,039,746	1,931,310
Lower Paxton Township	133,160	132,179
Total Tax Appropriations	5,886,356	6,632,180
Your Place to Belong Capital Campaign	1,808,030	122,650
Contributions		
Other	763,897	311,984
Funds and foundations	85,842	104,686
Total Contributions	849,739	416,670
Grants	245,332	267,853
Total Operating Support	8,789,457	7,439,353
Operating Revenue		
Desk receipts	62,623	56,633
Negotiated services	18,081	17,192
Other	12,722	11,969
Credit bureau	1,196	1,410
Total Operating Revenue	94,622	87,204
Total Operating Support and Revenue	\$ 8,884,079	\$ 7,526,557
Non-Operating Revenue		
Forgiveness of Note Payable	\$ 666,000	-
Investment Income, Net		
Realized investment gains	341,655	93,917
Dividends and interest, net	48,798	65,852
Total Investment Income, Net	390,453	159,769
Changes in the Fair Value of		
Beneficial interests held by third parties	130,922	79,333
Endowment funds held	90,440	270,905
Total Changes in Fair Value	221,362	350,238
Pension Related Changes Other Than Net Periodic Pension Cost	110,444	(272,667)
Total Non-Operating Revenue	\$ 1,388,259	\$ 237,340