

Dauphin County Library System

**Financial Statements and
Supplementary Information**

December 31, 2020 and 2019



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Dauphin County Library System

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December 31, 2020 and 2019

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Independent Auditor's Report

To the 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 statement of financial position as of December 31, 2020 and 2019, and 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dauphin County Library System as of December 31, 2020 and 2019, 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.

Other Matter - 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 the purpose 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 supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

RKL LLP

June 18, 2021
Harrisburg, Pennsylvania

Dauphin County Library System

Statement of Financial Position

	December 31,	
	2020	2019
Assets		
Cash and cash equivalents	\$ 1,013,183	\$ 885,411
Restricted cash	800,787	656,643
Accounts receivable	510,542	91,230
Prepaid expenses	214,547	247,063
Fixed assets, net	14,155,986	14,149,189
Certificates of deposit	1,434,757	1,519,049
Endowment funds held	3,506,576	3,287,138
Beneficial interests held by third parties	1,560,480	1,481,147
Total Assets	\$ 23,196,858	\$ 22,316,870
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 416,620	\$ 313,197
Accrued payroll, vacation, payroll taxes, and withholdings	273,337	372,201
Note payable	666,000	-
Defined benefit pension plan obligation	1,907,166	1,778,175
Total Liabilities	3,263,123	2,463,573
Net Assets		
Without donor restrictions	15,127,400	15,502,197
With donor restrictions	4,806,335	4,351,100
Total Net Assets	19,933,735	19,853,297
Total Liabilities and Net Assets	\$ 23,196,858	\$ 22,316,870

Dauphin County Library System

Statement of Activities

	Year Ended December 31, 2020		
	Without Donor Restrictions	With Donor Restrictions	Totals
Support and Revenue			
Tax appropriations	\$ 6,632,180	\$ -	\$ 6,632,180
Contributions	181,153	358,167	539,320
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			
Changes in the fair value of			
Endowment funds held	270,905	-	270,905
Beneficial interests held by third parties	-	79,333	79,333
Investment income, net	(36,312)	196,081	159,769
Pension related changes other than net periodic pension cost	(272,667)	-	(272,667)
Total Non-Operating Revenue	(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 Activities (continued)

	Year Ended December 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Totals
Support and Revenue			
Tax appropriations	\$ 6,096,533	\$ -	\$ 6,096,533
Contributions	359,251	515,855	875,106
Grants	284,046	-	284,046
Operating revenue	188,530	-	188,530
Net assets released from restrictions	184,349	(184,349)	-
Total Support and Revenue	7,112,709	331,506	7,444,215
Operating Expenses			
Library services	6,329,870	-	6,329,870
Supporting services			
Management and general	1,135,801	-	1,135,801
Fundraising	391,572	-	391,572
Total Operating Expenses	7,857,243	-	7,857,243
Net Change from Operations	(744,534)	331,506	(413,028)
Non-Operating Revenue			
Changes in the fair value of			
Endowment funds held	422,618	-	422,618
Beneficial interests held by third parties	-	164,333	164,333
Investment income, net	(389,434)	532,785	143,351
Pension related changes other than net periodic pension cost	(285,532)	-	(285,532)
Total Non-Operating Revenue	(252,348)	697,118	444,770
Changes in Net Assets	(996,882)	1,028,624	31,742
Net Assets at Beginning of Year	16,499,079	3,322,476	19,821,555
Net Assets at End of Year	\$ 15,502,197	\$ 4,351,100	\$ 19,853,297

See accompanying notes.

Dauphin County Library System

Statement of Functional Expenses - by Natural Classification

	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
Electronic library materials	-	-	-	-
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 Functional Expenses - by Natural Classification (continued)

	Year Ended December 31, 2019			
	Library Services	Supporting Services		Total
		Management and General	Fundraising	
Bank fees	\$ -	\$ 7,262	\$ -	\$ 7,262
Building and equipment maintenance	462,660	51,407	-	514,067
Depreciation				
Buildings, furnishings, and equipment	575,236	36,717	-	611,953
Library materials	786,025	-	-	786,025
Vehicles	27,515	16,160	-	43,675
Electronic library materials	1,741	-	-	1,741
Employee benefits	262,467	69,820	28,542	360,829
Freight and postage	8,793	500	10,470	19,763
Insurance	39,077	12,006	267	51,350
Licensing and equipment rental	179,552	11,827	-	191,379
Memberships	27,806	10,975	-	38,781
Miscellaneous	965	3,992	-	4,957
Newspapers	18,726	-	-	18,726
Online loan and catalog service	44,507	-	-	44,507
Outsourcing charges	4,033	-	-	4,033
Payroll taxes	207,788	51,294	21,674	280,756
Periodicals	14,517	-	-	14,517
Printing	28,792	-	26,281	55,073
Professional fees	39,340	46,369	11,665	97,374
Program expenses	470,011	-	-	470,011
Property taxes	-	-	-	-
Salaries	2,691,407	715,957	292,673	3,700,037
Supplies	33,647	7,386	-	41,033
Telephone and utilities	295,034	64,764	-	359,798
Travel and training	88,844	19,502	-	108,346
Vehicles, repairs, and maintenance	21,387	9,863	-	31,250
	<u>\$ 6,329,870</u>	<u>\$ 1,135,801</u>	<u>\$ 391,572</u>	<u>\$ 7,857,243</u>

Dauphin County Library System

Statement of Cash Flows

	Years Ended December 31,	
	2020	2019
Cash Flows from Operating Activities		
Changes in net assets	\$ 80,438	\$ 31,742
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	1,499,793	1,441,653
Gain on disposition of fixed assets	-	(7,377)
In-kind contributions for library materials	(6,883)	(5,530)
Net unrealized and realized investment gains	(364,822)	(469,801)
Change in fair value of beneficial interests held by third parties	(79,333)	(164,333)
Contributions restricted for endowment	(35,677)	(63,034)
Contributions restricted for fixed assets	(122,650)	(254,600)
(Increase) decrease in assets		
Accounts receivable	(419,312)	97,547
Promises to give	-	10,752
Prepaid expenses	32,516	17,800
Increase (decrease) in liabilities		
Accounts payable	218,107	(192,839)
Accrued payroll, vacation, payroll taxes, and withholdings	(98,864)	17,203
Defined benefit pension plan obligation	128,991	244,520
Net Cash Provided by Operating Activities	<u>832,304</u>	<u>703,703</u>
Cash Flows from Investing Activities		
Proceeds from sales of investments	246,708	20,066
Purchase of investments	(101,324)	(138,198)
Proceeds from liquidation of certificates of deposit	103,074	-
Purchase of certificates of deposit - including reinvested interest	(18,782)	(480,474)
Proceeds on disposition of fixed assets	-	17,406
Purchase of fixed assets	(1,614,391)	(2,214,531)
Net Cash Used in Investing Activities	<u>(1,384,715)</u>	<u>(2,795,731)</u>
Cash Flows from Financing Activities		
Proceeds from note payable	834,000	-
Principal payments on note payable	(168,000)	-
Cash received restricted for endowment	35,677	63,034
Cash received restricted for fixed assets	122,650	254,600
Net Cash Provided by Financing Activities	<u>824,327</u>	<u>317,634</u>
Net Increase (Decrease) in Cash and Cash Equivalents and Restricted Cash	271,916	(1,774,394)
Cash and Cash Equivalents and Restricted Cash at Beginning of Year	<u>1,542,054</u>	<u>3,316,448</u>
Cash and Cash Equivalents and Restricted Cash at End of Year	<u>\$ 1,813,970</u>	<u>\$ 1,542,054</u>
Supplementary Schedule of Noncash Investing Activities		
Purchase of fixed assets in accounts payable	<u>\$ (15,524)</u>	<u>\$ (130,208)</u>
Cash and Cash Equivalents and Restricted Cash is Comprised of the Following on the Statement of Financial Position		
Cash and cash equivalents	\$ 1,013,183	\$ 885,411
Restricted cash	<u>800,787</u>	<u>656,643</u>
	<u>\$ 1,813,970</u>	<u>\$ 1,542,054</u>

See accompanying notes.

Dauphin County Library System

Notes to Financial Statements
December 31, 2020 and 2019

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 from 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 into during its operations.

Net assets without donor restrictions include \$1,061,508 and \$1,073,828 of board-designated net assets as of December 31, 2020 and 2019, 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, 2020 and 2019

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 buildings or equipment (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 revenues 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.

Dauphin County Library System

Notes to Financial Statements

December 31, 2020 and 2019

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, 2020 and 2019.

Fixed Assets

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

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. The management of the Library concluded that no impairment adjustments were required during the years ended December 31, 2020 and 2019.

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.

Dauphin County Library System

Notes to Financial Statements

December 31, 2020 and 2019

Note 2 - Summary of Significant Accounting Policies (continued)

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.

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.

Dauphin County Library System

Notes to Financial Statements

December 31, 2020 and 2019

Note 2 - Summary of Significant Accounting Policies (continued)

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, 2017.

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.

Dauphin County Library System

Notes to Financial Statements
December 31, 2020 and 2019

Note 2 - Summary of Significant Accounting Policies (continued)

Expense Recognition and Allocation (continued)

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 \$395 and \$5,034 for the years ended December 31, 2020 and 2019, respectively.

Change in Accounting Principle

In August 2018, FASB issued Accounting Standards Update (ASU) 2018-13, *Fair Value Measurements (Topic 820)*. The amendments in this ASU removes, modifies, and adds certain disclosure requirements of ASC Topic 820. The Library implemented this standard during the year ended December 31, 2020. The Library has determined that the adoption of ASU 2018-13 did not have a material effect on the 2020 financial statements.

Recent Accounting Pronouncements

In February 2016, FASB issued 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.

Dauphin County Library System

Notes to Financial Statements

December 31, 2020 and 2019

Note 2 - Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements (continued)

In September 2020, 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.

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>2020</u>	<u>2019</u>
Financial Assets		
Cash and cash equivalents	\$ 1,013,183	\$ 885,411
Restricted cash	800,787	656,643
Accounts receivable	510,542	91,230
Certificates of deposit	1,434,757	1,519,049
Endowment funds held	3,506,576	3,287,138
Beneficial interests held by third parties	<u>1,560,480</u>	<u>1,481,147</u>
Total Financial Assets	<u>8,826,325</u>	<u>7,920,618</u>
Amounts Not Available to be Used for General Expenditures Within One Year		
Purpose restricted net assets	(800,787)	(656,643)
Donor-restricted endowment funds	(4,005,548)	(3,694,457)
Board-designated endowment funds	<u>(1,061,508)</u>	<u>(1,073,828)</u>
Total Amounts Not Available to be Used for General Expenditures Within One Year	<u>(5,867,843)</u>	<u>(5,424,928)</u>
Financial Assets Available to be Used for General Expenditures Within One Year	<u>\$ 2,958,482</u>	<u>\$ 2,495,690</u>

Dauphin County Library System

Notes to Financial Statements
December 31, 2020 and 2019

Note 3 - Liquidity and Availability (continued)

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 fund.

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 \$3,800,000). 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).

Note 4 - Grants

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

	<u>2020</u>	<u>2019</u>
E-rate program	\$ 140,724	\$ 150,046
Other grants	93,796	88,000
Educational Improvement Tax Credit program	<u>33,333</u>	<u>46,000</u>
	<u>\$ 267,853</u>	<u>\$ 284,046</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>2020</u>	<u>2019</u>
Money market and savings	\$ 1,452,532	\$ 886,675
Checking	360,158	654,099
Petty cash	<u>1,280</u>	<u>1,280</u>
	<u>\$ 1,813,970</u>	<u>\$ 1,542,054</u>

Dauphin County Library System

Notes to Financial Statements

December 31, 2020 and 2019

Note 6 - 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, 2020 and 2019:

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, 2020 and 2019 because of the short maturities of those instruments.

Dauphin County Library System

Notes to Financial Statements

December 31, 2020 and 2019

Note 6 - 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 at December 31, 2020			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
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
Small/mid cap	458,581	-	-	458,581
International	<u>443,444</u>	<u>-</u>	<u>-</u>	<u>443,444</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>

Dauphin County Library System

Notes to Financial Statements
December 31, 2020 and 2019

Note 6 - Fair Value Measurements (continued)

	Fair Value Measurements at December 31, 2019			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Certificates of Deposit	\$ 1,519,049	\$ -	\$ -	\$ 1,519,049
Endowment Funds Held				
Cash and cash equivalents	\$ 137,597	\$ -	\$ -	\$ 137,597
Mutual funds				
Large cap	1,359,111	-	-	1,359,111
Small/mid cap	281,162	-	-	281,162
International	498,053	-	-	498,053
Total Mutual Funds	2,138,326	-	-	2,138,326
Fixed income				
Multi-sector	789,503	-	-	789,503
High yield	33,615	-	-	33,615
U.S. Treasuries	33,342	-	-	33,342
Total Fixed Income	856,460	-	-	856,460
Other				
Long/short equity	100,361	-	-	100,361
Multi-strategy	54,394	-	-	54,394
Total Other	154,755	-	-	154,755
Total Endowment Funds Held	\$ 3,287,138	\$ -	\$ -	\$ 3,287,138
Beneficial Interests Held by Third Parties	\$ -	\$ -	\$ 1,481,147	\$ 1,481,147

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. For the years ended December 31, 2020 and 2019, there were no transfers in or out of Level 3.

Dauphin County Library System

Notes to Financial Statements
December 31, 2020 and 2019

Note 7 - Endowment Funds Held

Endowment funds held were as follows at December 31:

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Cash and Cash Equivalents	<u>\$ 126,048</u>	<u>\$ 126,048</u>	<u>\$ 137,597</u>	<u>\$ 137,597</u>
Mutual Funds				
Large cap	1,136,982	1,417,906	1,216,426	1,359,111
Small/mid cap	368,045	458,581	252,291	281,162
International	369,161	443,444	456,553	498,053
Total Mutual Funds	<u>1,874,188</u>	<u>2,319,931</u>	<u>1,925,270</u>	<u>2,138,326</u>
Fixed Income				
Multi-sector	808,570	834,583	785,282	789,503
High yield	54,361	54,762	34,018	33,615
U.S. Treasuries	-	-	33,207	33,342
Total Fixed Income	<u>862,931</u>	<u>889,345</u>	<u>852,507</u>	<u>856,460</u>
Other				
Long/short equity	99,421	102,631	103,272	100,361
Multi-strategy	64,429	68,621	59,838	54,394
Total Other	<u>163,850</u>	<u>171,252</u>	<u>163,110</u>	<u>154,755</u>
	<u>\$ 3,027,017</u>	<u>\$ 3,506,576</u>	<u>\$ 3,078,484</u>	<u>\$ 3,287,138</u>

Note 8 - Investments

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

	2020	2019
Realized gains	<u>\$ 93,917</u>	<u>\$ 47,183</u>
Dividends and interest, net	<u>65,852</u>	<u>96,168</u>
	<u>159,769</u>	<u>143,351</u>
Unrealized gains	<u>270,905</u>	<u>422,618</u>
	<u>\$ 430,674</u>	<u>\$ 565,969</u>

Dauphin County Library System

Notes to Financial Statements

December 31, 2020 and 2019

Note 9 - Fixed Assets

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

	<u>2020</u>	<u>2019</u>
Buildings, furnishings, and equipment	\$ 21,586,491	\$ 20,741,388
Library materials	3,679,207	3,596,223
Land*	922,455	922,455
Construction in progress*	412,495	605,674
Vehicles	245,075	263,107
	<u>26,845,723</u>	<u>26,128,847</u>
Accumulated depreciation	<u>(12,689,737)</u>	<u>(11,979,658)</u>
	<u>\$ 14,155,986</u>	<u>\$ 14,149,189</u>

* Not depreciated

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

	<u>2020</u>	<u>2019</u>
Cost of materials at beginning of year	\$ 3,596,223	\$ 3,410,747
Materials purchased and donated	854,665	830,309
Materials fully depreciated and deleted	<u>(771,681)</u>	<u>(644,833)</u>
	<u>\$ 3,679,207</u>	<u>\$ 3,596,223</u>

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>2020</u>	<u>2019</u>
Ida Browning	\$ 161,955	\$ 149,732
Edith Demain	427,732	413,749
Robert Hanson	61,536	74,139
William Donaldson (under agreement)	115,231	104,478
William Donaldson (under will)	507,503	468,672
Charlotte L. Shuey	241,227	229,605
Thomas Wierman	45,296	40,772
	<u>\$ 1,560,480</u>	<u>\$ 1,481,147</u>

Dauphin County Library System

Notes to Financial Statements
December 31, 2020 and 2019

Note 11 - Note 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 outstanding loan balance is forgivable if the Library meets certain criteria as established under the Program. The Library will seek loan forgiveness in fiscal year 2021. The loan is unsecured and does not require personal guarantees.

The loan bears interest at a fixed rate of 1.00%. Based on the original terms of the loan agreement, the loan was to accrue interest for the first six months following the date of the loan, and thereafter would convert to monthly payments of principal and interest. Monthly principal and interest payments were to be due beginning November 2020. The Paycheck Protection Program Flexibility Act of 2020 extended the deferral period for borrower payments of principal, interest, and fees on the loan to the date that the Small Business Administration remits the loan forgiveness amount, or if loan forgiveness is not requested, ten months after the end of the loan forgiveness covered period, which generally begins on the date the loan proceeds were received. The Library elected to use a 24-week loan forgiveness covered period. In February 2021, the Library was notified by M&T Bank that the loan has been forgiven by the Small Business Administration (refer to Note 21).

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, fixed income instruments, and 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.

Dauphin County Library System

Notes to Financial Statements

December 31, 2020 and 2019

Note 12 - Endowment Funds (continued)

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, 2018	\$ 1,081,714	\$ 2,934,305	\$ 4,016,019
Net investment gain (loss)	(7,886)	697,118	689,232
Contributions	-	63,034	63,034
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	<u>\$ 1,061,508</u>	<u>\$ 4,005,548</u>	<u>\$ 5,067,056</u>

Note 13 - Net Assets

Net assets consist of the following as of December 31:

	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	<u>1,061,508</u>	<u>-</u>	<u>1,061,508</u>
Total Endowment Net Assets	<u>1,061,508</u>	<u>4,005,548</u>	<u>5,067,056</u>

Dauphin County Library System

Notes to Financial Statements
December 31, 2020 and 2019

Note 13 - Net Assets (continued)

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
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
2019			
Endowment Net Assets			
Funds invested in perpetuity			
Carole DeSoto Fund, Elizabethville Arts Series	\$ -	\$ 94,695	\$ 94,695
Joan Y. Leopold Fund, Children's Book Week	-	203,753	203,753
Kathryn Witmer Sandel Memorial Fund, materials for the William H. and Marion C. Alexander Family Library	-	20,978	20,978
Henry and Dottie Swartz Fund, East Shore Area Library materials and expansion	-	816,413	816,413
Light the Way to Learning	-	411,344	411,344
Beneficial interests held by third parties	-	1,481,147	1,481,147
Other endowment funds	-	666,127	666,127
Designated by the Board of Trustees to function as an endowment	1,073,828	-	1,073,828
Total Endowment Net Assets	1,073,828	3,694,457	4,768,285

Dauphin County Library System

Notes to Financial Statements
December 31, 2020 and 2019

Note 13 - Net Assets (continued)

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Purpose Restricted Net Assets			
Library materials	\$ -	\$ 402,043	\$ 402,043
Building renovations	-	254,600	254,600
Total Purpose Restricted Net Assets	-	656,643	656,643
Net Assets Without Donor Restrictions			
Defined benefit pension reserve	2,304,903	-	2,304,903
Other	12,123,466	-	12,123,466
Total Net Assets Without Donor Restrictions	14,428,369	-	14,428,369
Total Net Assets	\$ 15,502,197	\$ 4,351,100	\$ 19,853,297

Note 14 - Net Assets Released from Restrictions

Net assets released from donor restrictions, which include library materials, programming, and other items, were \$178,346 and \$184,349 for the years ended December 31, 2020 and 2019, respectively.

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.

Dauphin County Library System

Notes to Financial Statements
December 31, 2020 and 2019

Note 15 - Defined Benefit Pension Plan (continued)

The following tables set forth by level, within the fair value hierarchy (refer to Note 6), the plan's investments at fair value as of December 31:

	2020	
	Fair Value	(Level 1)
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>
	2019	
Cash and Cash Equivalents	\$ 32,096	32,096
Mutual Funds		
Equity funds	3,080,841	3,080,841
Fixed income funds	2,035,225	2,035,225
	<u>\$ 5,148,162</u>	<u>5,148,162</u>

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

	2020	2019
Change in Benefit Obligation		
Projected benefit obligation at beginning of year	\$ 6,926,337	\$ 6,299,329
Change due to change in assumptions	633,281	766,941
Interest cost	215,957	259,576
Experience gains	(66,468)	9,663
Benefit payments	(485,937)	(409,172)
Projected benefit obligation at end of year	<u>7,223,170</u>	<u>6,926,337</u>
Change in Plan Assets		
Fair value of plan assets at beginning of year	5,148,162	4,765,674
Employer contributions	43,815	-
Actual return on plan assets	609,964	791,660
Benefit payments (including assumed expenses)	(485,937)	(409,172)
Fair value of plan assets at end of year	<u>5,316,004</u>	<u>5,148,162</u>
Funded Status and Accrued Pension Liability	<u>\$ (1,907,166)</u>	<u>\$ (1,778,175)</u>

Dauphin County Library System

Notes to Financial Statements
December 31, 2020 and 2019

Note 15 - Defined Benefit Pension Plan (continued)

The Library's net assets without donor restrictions include \$2,577,570 and \$2,304,903 of net loss not yet recognized in net periodic pension expense as of December 31, 2020 and 2019, respectively. Approximately \$124,000 of the net loss included in changes in net assets will be recognized in net periodic pension expense during the year ending December 31, 2021.

The accumulated benefit obligation amounted to \$7,223,170 and \$6,926,337 as of December 31, 2020 and 2019, respectively.

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

	<u>2020</u>	<u>2019</u>
Interest cost	\$ 215,957	\$ 259,576
Net amortization of prior service cost, transition obligation, and net loss	103,497	87,383
Expected return on plan assets	<u>(419,315)</u>	<u>(387,971)</u>
Net Periodic Pension Cost	<u>\$ (99,861)</u>	<u>\$ (41,012)</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.

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>2020</u>	<u>2019</u>
Discount rate	2.50 %	3.25 %
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:

2021	\$ 395,350
2022	389,040
2023	380,141
2024	376,653
2025	373,667
2026 to 2030	1,929,420

Dauphin County Library System

Notes to Financial Statements
December 31, 2020 and 2019

Note 15 - Defined Benefit Pension Plan (continued)

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.

For the years prior to and including December 31, 2017, the Library funded the pension plan on an annual basis based on a contribution amount determined by management. Since the plan was amended to freeze benefit accruals on January 1, 2018, no contribution is anticipated for the year ended December 31, 2020.

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

	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents	0.60 %	0.62 %
Mutual Funds		
Equity funds	60.00	59.85
Fixed income funds	39.40	39.53
	<u>100.00 %</u>	<u>100.00 %</u>

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.

Dauphin County Library System

Notes to Financial Statements

December 31, 2020 and 2019

Note 16 - Defined Contribution Pension Plan (continued)

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 over a period of five years 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, 2020, there were 108 active members in the defined contribution pension plan and 8 vested former members. Contributions to the plan during the years ended December 31, 2020 and 2019 totaled \$94,149 and \$81,514, respectively. At December 31, 2020 and 2019, these contributions were included in accounts payable.

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% and 5.75% as of December 31, 2020 and 2019, respectively. There were no amounts outstanding at December 31, 2020 and 2019.

Note 18 - Commitments

The Library leases various operating equipment under operating leases. Rent expense under these agreements amounted to \$86,208 and \$101,538 for the years ended December 31, 2020 and 2019, respectively. Future minimum lease payments, assuming no changes in current terms, consist of the following for the remaining three years ending December 31:

2021	\$	73,054
2022		71,543
2023		33,932

Dauphin County Library System

Notes to Financial Statements
December 31, 2020 and 2019

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 \$4,568,691 and \$4,568,275 for the years ended December 31, 2020 and 2019, respectively. In addition, the Commonwealth of Pennsylvania contributes amounts which are also determined annually. These amounts totaled \$1,931,310 and \$1,395,577 for the years ended December 31, 2020 and 2019, respectively. Also, Lower Paxton Township provided \$132,179 and \$132,681 from real estate tax assessments for the years ended December 31, 2020 and 2019, respectively. In total, during the years ended December 31, 2020 and 2019, approximately 88% and 82%, 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.

Note 21 - Subsequent Events

The Library has evaluated subsequent events through June 18, 2021. This date is the date the financial statements were available to be issued. The following material event subsequent to December 31, 2020 was noted:

In February 2021, the Library was notified by M&T Bank that the Paycheck Protection Program loan (refer to Note 11) has been forgiven by the Small Business Administration.

No other material events subsequent to December 31, 2020 were noted.

Dauphin County Library System

Schedule of Operating and Non-Operating Support and Revenue

	Years Ended December 31,	
	2020	2019
Operating Support		
Tax Appropriations		
Dauphin County	\$ 4,568,691	\$ 4,568,275
Commonwealth of Pennsylvania	1,931,310	1,395,577
Lower Paxton Township	132,179	132,681
Total Tax Appropriations	<u>6,632,180</u>	<u>6,096,533</u>
Contributions		
Capital campaign	122,650	254,600
Funds and foundations	104,686	171,960
Other	311,984	448,546
Total Contributions	<u>539,320</u>	<u>875,106</u>
Grants	<u>267,853</u>	<u>284,046</u>
Total Operating Support	<u>7,439,353</u>	<u>7,255,685</u>
Operating Revenue		
Desk receipts	56,633	144,687
Negotiated services	17,192	13,875
Other	11,969	17,803
Credit bureau	1,410	4,788
Gain on disposition of fixed assets	-	7,377
Total Operating Revenue	<u>87,204</u>	<u>188,530</u>
Total Operating Support and Revenue	<u>\$ 7,526,557</u>	<u>\$ 7,444,215</u>
Non-Operating Revenue		
Change in the Fair Value of		
Endowment funds held	\$ 270,905	\$ 422,618
Beneficial interests held by third parties	79,333	164,333
Total Change in Fair Value	<u>350,238</u>	<u>586,951</u>
Investment Income		
Realized gains on sale of investment	93,917	47,183
Investment income, net	65,852	96,168
Total Investment Income	<u>159,769</u>	<u>143,351</u>
Pension Related Changes Other Than Net Periodic Pension Cost	<u>(272,667)</u>	<u>(285,532)</u>
Total Non-Operating Revenue	<u>\$ 237,340</u>	<u>\$ 444,770</u>