

# **Dauphin County Library System**

## **Financial Statements and Supplementary Information**

**December 31, 2016 and 2015**



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# Dauphin County Library System

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December 31, 2016 and 2015

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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, 2016, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit 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 auditors consider 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, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

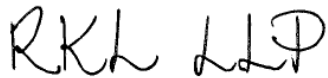
## **Other Matters**

### *Supplementary Information*

Our audit was 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 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### *Prior Year Audited by Other Auditors*

The financial statements of the Library, as of and for the year ended December 31, 2015, were audited by other auditors, whose report, dated June 14, 2016, expressed an unmodified opinion on those statements.

Handwritten signature in black ink that reads "RKL LLP". The letters are stylized and cursive.

June 13, 2017  
Harrisburg, Pennsylvania

# Dauphin County Library System

## Statement of Financial Position

	December 31,	
	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 5,428,870	\$ 4,971,662
Accounts receivable	106,123	575,901
Pledges receivable, net	32,927	37,266
Prepaid expenses	197,881	288,716
Fixed assets, net	13,862,820	14,175,134
Endowment funds held	2,253,232	2,036,828
Beneficial interests held by third parties	1,482,864	1,545,763
<b>Total Assets</b>	<b>\$ 23,364,717</b>	<b>\$ 23,631,270</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 395,762	\$ 239,878
Accrued payroll, vacation, payroll taxes, and withholdings	278,518	255,731
Deferred revenue	7,912	8,889
Defined benefit pension plan obligation	1,414,195	1,545,758
<b>Total Liabilities</b>	<b>2,096,387</b>	<b>2,050,256</b>
<b>Net Assets</b>		
Unrestricted	18,222,860	18,624,060
Temporarily restricted	491,561	471,275
Permanently restricted	2,553,909	2,485,679
<b>Total Net Assets</b>	<b>21,268,330</b>	<b>21,581,014</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 23,364,717</b>	<b>\$ 23,631,270</b>

# Dauphin County Library System

## Statement of Activities

	Year Ended December 31, 2016			Totals
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Support and Revenue</b>				
Tax appropriations	\$ 5,980,449	\$ -	\$ -	\$ 5,980,449
Grants	151,782	50,000	-	201,782
Contributions	325,384	153,973	130,022	609,379
Operating revenue	206,892	-	-	206,892
Net assets released from restrictions	207,013	(207,013)	-	-
<b>Total Support and Revenue</b>	<b>6,871,520</b>	<b>(3,040)</b>	<b>130,022</b>	<b>6,998,502</b>
<b>Operating Expenses</b>				
Library services	6,138,618	-	-	6,138,618
Supporting services				
Management and general	1,047,342	-	-	1,047,342
Fundraising	361,184	-	-	361,184
<b>Total Operating Expenses</b>	<b>7,547,144</b>	<b>-</b>	<b>-</b>	<b>7,547,144</b>
<b>Net Change from Operations</b>	<b>(675,624)</b>	<b>(3,040)</b>	<b>130,022</b>	<b>(548,642)</b>
<b>Non-Operating Income</b>				
Investment income	11,487	24,433	-	35,920
Changes in the fair value of				
Beneficial interests held by third parties	-	(1,107)	(61,792)	(62,899)
Endowment funds held	109,796	-	-	109,796
Pension related changes other than net periodic pension cost	153,141	-	-	153,141
<b>Total Non-Operating Income</b>	<b>274,424</b>	<b>23,326</b>	<b>(61,792)</b>	<b>235,958</b>
<b>Changes in Net Assets</b>	<b>(401,200)</b>	<b>20,286</b>	<b>68,230</b>	<b>(312,684)</b>
<b>Net Assets at Beginning of Year</b>	<b>18,624,060</b>	<b>471,275</b>	<b>2,485,679</b>	<b>21,581,014</b>
<b>Net Assets at End of Year</b>	<b>\$ 18,222,860</b>	<b>\$ 491,561</b>	<b>\$ 2,553,909</b>	<b>\$ 21,268,330</b>

See accompanying notes.

	Year Ended December 31, 2015			Totals
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Support and Revenue</b>				
Tax appropriations	\$ 5,904,396	\$ -	\$ -	\$ 5,904,396
Grants	200,501	-	-	200,501
Contributions	293,784	286,721	34,770	615,275
Operating revenue	230,506	-	-	230,506
Net assets released from restrictions	127,938	(127,938)	-	-
<b>Total Support and Revenue</b>	<b>6,757,125</b>	<b>158,783</b>	<b>34,770</b>	<b>6,950,678</b>
<b>Operating Expenses</b>				
Library services	6,132,710	-	-	6,132,710
Supporting services				
Management and general	1,000,272	-	-	1,000,272
Fundraising	61,973	-	-	61,973
<b>Total Operating Expenses</b>	<b>7,194,955</b>	<b>-</b>	<b>-</b>	<b>7,194,955</b>
<b>Net Change from Operations</b>	<b>(437,830)</b>	<b>158,783</b>	<b>34,770</b>	<b>(244,277)</b>
<b>Non-Operating Income</b>				
Investment income	104,573	(86,441)	-	18,132
Changes in the fair value of				
Beneficial interests held by third parties	-	(7,643)	(104,897)	(112,540)
Endowment funds held	(86,290)	-	-	(86,290)
Pension related changes other than net periodic pension cost	(262,381)	-	-	(262,381)
<b>Total Non-Operating Income</b>	<b>(244,098)</b>	<b>(94,084)</b>	<b>(104,897)</b>	<b>(443,079)</b>
<b>Changes in Net Assets</b>	<b>(681,928)</b>	<b>64,699</b>	<b>(70,127)</b>	<b>(687,356)</b>
<b>Net Assets at Beginning of Year</b>	<b>19,305,988</b>	<b>406,576</b>	<b>2,555,806</b>	<b>22,268,370</b>
<b>Net Assets at End of Year</b>	<b>\$ 18,624,060</b>	<b>\$ 471,275</b>	<b>\$ 2,485,679</b>	<b>\$ 21,581,014</b>

# Dauphin County Library System

## Statement of Cash Flows

	Years Ended December 31,	
	2016	2015
<b>Cash Flows from Operating Activities</b>		
Changes in net assets	\$ (312,684)	\$ (687,356)
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	1,215,236	1,217,550
Gain on disposal of fixed assets	-	(968)
In-kind contributions for library materials	(18,091)	(18,580)
Net unrealized and realized investment (gains) losses	(81,493)	132,495
Change in fair value of beneficial interests held by third parties	62,899	112,540
Contributions restricted for endowment	(130,022)	(34,770)
(Increase) decrease in assets		
Accounts receivable	469,778	(455,083)
Pledges receivable	4,339	(36,516)
Prepaid expenses	90,835	(37,031)
Increase (decrease) in liabilities		
Accounts payable	65,912	24,740
Accrued payroll, vacation, payroll taxes, and withholdings	22,787	26,137
Deferred revenue	(977)	(28,471)
Defined benefit pension plan obligation	(131,563)	190,616
<b>Net Cash Provided by Operating Activities</b>	<b>1,256,956</b>	<b>405,303</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales of investments	19,882	81,715
Purchase of investments	(154,793)	(92,036)
Proceeds from sale of property and equipment	-	4,888
Purchase of real estate, equipment, and library materials	(794,859)	(862,333)
<b>Net Cash Used in Investing Activities</b>	<b>(929,770)</b>	<b>(867,766)</b>
<b>Cash Flows from Financing Activities</b>		
Cash received restricted for endowment	130,022	34,770
Payments on capital lease obligations	-	(6,749)
<b>Net Cash Provided by Financing Activities</b>	<b>130,022</b>	<b>28,021</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>457,208</b>	<b>(434,442)</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>4,971,662</b>	<b>5,406,104</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 5,428,870</b>	<b>\$ 4,971,662</b>
<b>Supplementary Cash Flows Information</b>		
Interest paid	\$ -	\$ 80
<b>Supplementary Schedule of Noncash Investing Activities</b>		
Purchase of real estate, equipment, and library materials in accounts payable	\$ 127,161	\$ 37,189



## Dauphin County Library System

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### Notes to Financial Statements

December 31, 2016 and 2015

#### **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 Dauphin County Library System 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.

#### **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.

##### **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 is required to report information regarding its financial position and activities according to three class of net assets:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets include \$999,236 and \$937,286, as of December 31, 2016 and 2015, respectively, of board designated net assets. These net assets were specifically designated by the Board of Trustees to function as an endowment.

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that permit the Library to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the Library.

Permanently restricted net assets - Net assets subject to donor-imposed restrictions that stipulate the resources be maintained permanently, but permit the Library to expend all of the income derived from the donated assets for specified purposes.

##### **Use of Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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. Actual results could differ from those estimates.

## **Dauphin County Library System**

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Notes to Financial Statements

December 31, 2016 and 2015

### **Note 2 - Summary of Significant Accounting Policies (continued)**

#### **Cash and Cash Equivalents**

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

#### **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 (FDIC) 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 and Pledges Receivable**

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

#### **Beneficial Interest Held by Third Parties**

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

#### **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.

#### **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.

## **Dauphin County Library System**

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Notes to Financial Statements

December 31, 2016 and 2015

### **Note 2 - Summary of Significant Accounting Policies (continued)**

#### **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, 2016 and 2015.

#### **Accrued Vacation**

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

#### **Contributions**

The Library reports contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Library reports the support as unrestricted.

#### **Endowments**

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

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 permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts made to the endowment. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Library in a manner consistent with the standard of prudence described by Pennsylvania Act 141. The Library may annually spend certain percentages of the average portfolio value, using December 31 valuations, unless otherwise restricted by the donor.

## Dauphin County Library System

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### Notes to Financial Statements

December 31, 2016 and 2015

#### **Note 2 - Summary of Significant Accounting Policies (continued)**

##### **Tax Status**

The Library has been recognized as exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state statutes. 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 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, 2013.

##### **Advertising**

The Library follows the policy of charging the cost of advertising to expense when incurred. Amounts charged to expense for advertising were \$28,703 and \$28,137 for the years ended December 31, 2016 and 2015, respectively.

##### **Functional Expenses**

The cost of providing the various programs and other activities are summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited based on estimated usage. Supporting services include management and general expenses and fundraising expenses.

##### **Reclassifications**

Certain information in the 2015 financial statements and related footnotes contain reclassifications necessary to make the information comparable to information presented in the 2016 financial statements.

##### **Recent Accounting Pronouncements**

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts With Customers*, which provides a robust framework for addressing revenue recognition issues and upon its effective date replaces almost all existing revenue recognition guidance. This guidance is effective for annual reporting periods beginning after December 15, 2018.

## Dauphin County Library System

### Notes to Financial Statements

December 31, 2016 and 2015

#### Note 2 - Summary of Significant Accounting Policies (continued)

##### Recent Accounting Pronouncements (continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The guidance is effective for fiscal years beginning after December 15, 2019.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions", and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017.

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

#### Note 3 - Grants

Grants are earned and reported as revenues when the Library has incurred expenditures in compliance with the contract. Grant revenue recognized is as follows for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Dauphin County grant	\$ -	\$ 75,000
Other grants	119,372	81,145
EITC	60,417	-
E-rate program	21,993	44,356
	<u>\$ 201,782</u>	<u>\$ 200,501</u>

#### Note 4 - Cash and Cash Equivalents

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

	<u>2016</u>	<u>2015</u>
Checking	\$ 2,172,419	\$ 2,047,398
Money market and savings	2,241,728	1,909,541
Certificates of deposit	1,013,543	1,013,543
Petty cash	1,180	1,180
	<u>\$ 5,428,870</u>	<u>\$ 4,971,662</u>

## Dauphin County Library System

### Notes to Financial Statements

December 31, 2016 and 2015

#### Note 5 - Pledges Receivable

Pledges receivable from fundraising campaigns were as follows as of December 31:

	<u>2016</u>	<u>2015</u>
Unconditional promises to give before unamortized discount	\$ 35,300	\$ 40,750
Unamortized present value discount at 2.45% and 2.27% at December 31, 2016 and 2015, respectively	<u>(2,373)</u>	<u>(3,484)</u>
<b>Pledges Receivable, Net</b>	<b><u>\$ 32,927</u></b>	<b><u>\$ 37,266</u></b>
<b>Amounts Due In</b>		
Less than one year	\$ 11,888	\$ 10,022
One to five years	<u>21,039</u>	<u>27,244</u>
	<b><u>\$ 32,927</u></b>	<b><u>\$ 37,266</u></b>

#### 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 entity's own assumptions about the assumptions that market participants would use in pricing the asset developed based on the best information available in the circumstances.

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

- Level 1 - 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.

# Dauphin County Library System

## Notes to Financial Statements

December 31, 2016 and 2015

### Note 6 - Fair Value Measurements (continued)

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, 2016 and 2015:

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 common stocks, mutual funds, fixed income, and other - Fair value of common stocks, 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 were based on the Library's ownership interest of the fund as determined by the third parties. The fund 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, accounts receivable, pledges receivable, and accounts payable. The carrying amounts of cash, accounts receivable, and accounts payable, approximate fair value as of December 31, 2016 and 2015 because of the short maturities of those instruments. The carrying amounts of pledges receivable as of December 31, 2016 and 2015 approximate fair value, as they have been discounted using risk adjusted rates.

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 ASC 820:

	Fair Value Measurements at December 31, 2016			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Certificates of Deposit	\$ 1,013,543	\$ -	\$ -	\$ 1,013,543

# Dauphin County Library System

## Notes to Financial Statements

December 31, 2016 and 2015

### Note 6 - Fair Value Measurements (continued)

Fair Value Measurements at December 31, 2016				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Endowment Funds Held</b>				
Cash and cash equivalents	\$ 114,589	\$ -	\$ -	\$ 114,589
<b>Common Stocks</b>				
Materials	27,007	-	-	27,007
Energy	47,466	-	-	47,466
Technology	152,905	-	-	152,905
Consumer	168,069	-	-	168,069
Industrial	126,426	-	-	126,426
Financial	122,779	-	-	122,779
Healthcare	93,529	-	-	93,529
Utilities and telecom	33,933	-	-	33,933
<b>Total Common Stocks</b>	<b>772,114</b>	<b>-</b>	<b>-</b>	<b>772,114</b>
<b>Mutual Funds</b>				
Large cap	267,165	-	-	267,165
Small/mid cap	30,406	-	-	30,406
International	169,395	-	-	169,395
Real estate	30,384	-	-	30,384
<b>Total Mutual Funds</b>	<b>497,350</b>	<b>-</b>	<b>-</b>	<b>497,350</b>
<b>Fixed Income</b>				
U.S. Treasuries	171,551	-	-	171,551
Corporate	236,561	-	-	236,561
High yield	57,387	-	-	57,387
Mortgage/asset backed	151,843	-	-	151,843
Municipal bonds	14,796	-	-	14,796
Multi-sector	62,752	-	-	62,752
International	50,929	-	-	50,929
<b>Total Fixed Income</b>	<b>745,819</b>	<b>-</b>	<b>-</b>	<b>745,819</b>
<b>Other</b>				
Managed futures	21,626	-	-	21,626
Long/short equity	43,279	-	-	43,279
Multi-strategy	45,640	-	-	45,640
Master limited partnerships	12,815	-	-	12,815
<b>Total Other</b>	<b>123,360</b>	<b>-</b>	<b>-</b>	<b>123,360</b>
<b>Total Endowment Funds Held</b>	<b>\$ 2,253,232</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,253,232</b>
<b>Beneficial Interests Held by Third Parties</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,482,864</b>	<b>\$ 1,482,864</b>



# Dauphin County Library System

## Notes to Financial Statements

December 31, 2016 and 2015

### Note 6 - Fair Value Measurements (continued)

Fair Value Measurements at December 31, 2015				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Certificates of Deposit</b>	\$ 1,013,543	\$ -	\$ -	\$ 1,013,543
<b>Endowment Funds Held</b>				
Cash and Cash Equivalents	\$ 105,384	\$ -	\$ -	\$ 105,384
<b>Common Stocks</b>				
Materials	8,557	-	-	8,557
Energy	45,292	-	-	45,292
Technology	128,094	-	-	128,094
Consumer	157,267	-	-	157,267
Industrial	112,097	-	-	112,097
Financial	102,204	-	-	102,204
Healthcare	94,189	-	-	94,189
Utilities and telecom	50,954	-	-	50,954
<b>Total Common Stocks</b>	<b>698,654</b>	<b>-</b>	<b>-</b>	<b>698,654</b>
<b>Mutual Funds</b>				
Large cap	137,517	-	-	137,517
Small/mid cap	20,523	-	-	20,523
International	117,901	-	-	117,901
Real estate	39,370	-	-	39,370
<b>Total Mutual Funds</b>	<b>315,311</b>	<b>-</b>	<b>-</b>	<b>315,311</b>
<b>Fixed Income</b>				
U.S. Treasuries	181,545	-	-	181,545
Corporate	254,571	-	-	254,571
High yield	56,853	-	-	56,853
Mortgage/asset backed	112,912	-	-	112,912
Municipal bonds	14,525	-	-	14,525
Multi-sector	26,506	-	-	26,506
International	18,536	-	-	18,536
<b>Total Fixed Income</b>	<b>665,448</b>	<b>-</b>	<b>-</b>	<b>665,448</b>
<b>Other</b>				
Managed futures	-	-	-	-
Long/short equity	114,386	-	-	114,386
Multi-strategy	110,236	-	-	110,236
Master limited partnerships	27,409	-	-	27,409
<b>Total Other</b>	<b>252,031</b>	<b>-</b>	<b>-</b>	<b>252,031</b>
<b>Total Endowment Funds Held</b>	<b>\$ 2,036,828</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,036,828</b>

# Dauphin County Library System

Notes to Financial Statements

December 31, 2016 and 2015

## Note 6 - Fair Value Measurements (continued)

	Fair Value Measurements at December 31, 2015			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Beneficial Interests Held by Third Parties</b>	\$ -	\$ -	\$ 1,545,763	\$ 1,545,763

### Changes in Fair Value Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments with 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.

We 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, 2016 and 2015, there were no transfers in or out of Level 3.

For assets falling within Level 3 in the fair value hierarchy, the activity recognized is as follows during the years ended December 31:

<b>Balance at December 31, 2014</b>	\$ 1,658,303
Unrealized holding losses	<u>(112,540)</u>
<b>Balance at December 31, 2015</b>	1,545,763
Unrealized holding losses	<u>(62,899)</u>
<b>Balance at December 31, 2016</b>	<u>\$ 1,482,864</u>

The unrealized holding losses beneficial interests held by third parties, classified as Level 3, are included within the changes in fair value of beneficial interests held by third parties on the statement of activities.

# Dauphin County Library System

## Notes to Financial Statements

December 31, 2016 and 2015

### Note 7 - Investments

Investments were as follows at December 31:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
<b>Cash and Cash Equivalents</b>	<b>\$ 114,589</b>	<b>\$ 114,589</b>	<b>\$ 105,384</b>	<b>\$ 105,384</b>
<b>Common Stocks</b>				
Materials	24,584	27,007	14,138	8,557
Energy	43,128	47,466	53,133	45,292
Technology	128,767	152,905	114,731	128,094
Consumer	162,634	168,069	158,223	157,267
Industrial	128,662	126,426	130,838	112,097
Financial	103,814	122,779	98,527	102,204
Healthcare	93,375	93,529	84,336	94,189
Utilities and telecom	31,599	33,933	48,106	50,954
<b>Total Common Stocks</b>	<b>716,563</b>	<b>772,114</b>	<b>702,032</b>	<b>698,654</b>
<b>Mutual Funds</b>				
Large cap	251,992	267,165	134,491	137,517
Small/mid cap	28,587	30,406	20,350	20,523
International	174,683	169,395	129,183	117,901
Real estate	31,535	30,384	41,758	39,370
<b>Total Mutual Funds</b>	<b>486,797</b>	<b>497,350</b>	<b>325,782</b>	<b>315,311</b>
<b>Fixed Income</b>				
U.S. Treasuries	171,961	171,551	182,157	181,545
Corporate	239,720	236,561	261,893	254,571
High yield	60,189	57,387	64,821	56,853
Mortgage/asset backed	156,426	151,843	115,892	112,912
Municipal bonds	14,814	14,796	14,814	14,525
Multi-sector	62,500	62,752	27,500	26,506
International	53,741	50,929	21,034	18,536
<b>Total Fixed Income</b>	<b>759,351</b>	<b>745,819</b>	<b>688,111</b>	<b>665,448</b>
<b>Other</b>				
Managed futures	22,032	21,626	-	-
Long/short equity	41,612	43,279	121,836	114,386
Multi-strategy	48,885	45,640	125,012	110,236
Master limited partnerships	10,036	12,815	25,000	27,409
<b>Total Other</b>	<b>122,565</b>	<b>123,360</b>	<b>271,848</b>	<b>252,031</b>
	<b>\$ 2,199,865</b>	<b>\$ 2,253,232</b>	<b>\$ 2,093,157</b>	<b>\$ 2,036,828</b>

## Dauphin County Library System

### Notes to Financial Statements

December 31, 2016 and 2015

#### Note 7 - Investments (continued)

Investment income summarized as follows at December 31:

	<u>2016</u>	<u>2015</u>
Dividends and interest income	\$ 64,223	\$ 64,363
Realized losses	<u>(28,303)</u>	<u>(46,231)</u>
	35,920	18,132
Unrealized gains (losses)	<u>109,796</u>	<u>(86,290)</u>
	<u>\$ 145,716</u>	<u>\$ (68,158)</u>

#### Note 8 - Fixed Assets

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

	<u>2016</u>	<u>2015</u>
Land*	\$ 922,455	\$ 922,455
Buildings, furnishings, and equipment	19,683,050	19,249,175
Library materials	2,819,799	2,839,750
Motor vehicles	143,022	137,873
Construction in progress*	<u>69,562</u>	<u>224,800</u>
	23,637,888	23,374,053
Accumulated depreciation	<u>(9,775,068)</u>	<u>(9,198,919)</u>
	<u>\$ 13,862,820</u>	<u>\$ 14,175,134</u>

\* Not depreciated

A reconciliation of Library materials follows at December 31:

	<u>2016</u>	<u>2015</u>
Cost of materials at beginning of year	\$ 2,839,750	\$ 2,903,775
Materials purchased and donated	600,218	598,379
Materials fully depreciated and deleted	<u>(620,169)</u>	<u>(662,404)</u>
	<u>\$ 2,819,799</u>	<u>\$ 2,839,750</u>

## Dauphin County Library System

### Notes to Financial Statements

December 31, 2016 and 2015

#### Note 9 - Beneficial Interests Held by Third Parties

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

	<u>2016</u>	<u>2015</u>
Ida Browning	\$ 141,536	\$ 143,749
Edith Demain	399,181	415,604
Robert Hanson	65,746	94,976
William Donaldson (under agreement)	97,294	100,459
William Donaldson (under will)	443,786	449,147
James McCormick Memorial Fund	90,655	86,852
Charlotte L. Shuey	208,293	209,341
Thomas Wierman	36,373	45,635
	<u>\$ 1,482,864</u>	<u>\$ 1,545,763</u>

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

#### Note 10 - Endowment Fund

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

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

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

## Dauphin County Library System

### Notes to Financial Statements

December 31, 2016 and 2015

#### Note 10 - Endowment Fund (continued)

Changes in endowment-related activities are as follows for the years ended December 31:

	<b>Board Designated Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>January 1, 2015</b>	\$ 1,016,184	\$ 252,579	\$ 2,555,806	\$ 3,824,569
Net investment income	(78,898)	(94,083)	(104,897)	(277,878)
Contributions	-	-	34,770	34,770
Other	-	1,130	-	1,130
<b>January 1, 2016</b>	<b>937,286</b>	<b>159,626</b>	<b>2,485,679</b>	<b>3,582,591</b>
Net investment income	<b>61,950</b>	<b>23,326</b>	<b>(61,792)</b>	<b>23,484</b>
Contributions	-	-	<b>130,022</b>	<b>130,022</b>
Other	-	-	-	-
<b>December 31, 2016</b>	<b>\$ 999,236</b>	<b>\$ 182,952</b>	<b>\$ 2,553,909</b>	<b>\$ 3,736,097</b>

# Dauphin County Library System

## Notes to Financial Statements

December 31, 2016 and 2015

### Note 11 - Net Assets

Net assets consist of the following as of December 31:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Endowment Net Assets</b>				
Funds invested in perpetuity				
Carole DeSoto Fund, Elizabethville Arts Series	\$ -	\$ 5,866	\$ 68,195	\$ 74,061
Joan Y. Leopold Fund, Children's Book Week	-	5,101	116,091	121,192
Kathryn Witmer Sandel Memorial Fund, materials for the William H. and Marion C. Alexander Family Library	-	1,200	13,927	15,127
Henry & Dottie Swartz Fund, East Shore Area Library materials and expansion	-	54,686	642,422	697,108
Light the Way to Learning	-	16,237	229,516	245,753
Beneficial interests held by third parties	-	70,768	1,412,096	1,482,864
Other endowment funds Designated by the Board of Trustees to function as an endowment	-	29,094	71,662	100,756
	<u>999,236</u>	<u>-</u>	<u>-</u>	<u>999,236</u>
<b>Total Endowment Net Assets</b>	<u>999,236</u>	<u>182,952</u>	<u>2,553,909</u>	<u>3,736,097</u>
<b>Net Assets Restricted by Donors for Library Materials</b>	<u>-</u>	<u>308,609</u>	<u>-</u>	<u>308,609</u>
<b>Unrestricted and Undesignated Net Assets</b>				
Defined benefit pension liability	1,731,759	-	-	1,731,759
Other	15,491,865	-	-	15,491,865
	<u>17,223,624</u>	<u>-</u>	<u>-</u>	<u>17,223,624</u>
<b>Total Unrestricted and Undesignated Net Assets</b>	<u>17,223,624</u>	<u>-</u>	<u>-</u>	<u>17,223,624</u>
<b>Total Net Assets</b>	<u>\$ 18,222,860</u>	<u>\$ 491,561</u>	<u>\$ 2,553,909</u>	<u>\$ 21,268,330</u>

# Dauphin County Library System

## Notes to Financial Statements

December 31, 2016 and 2015

### Note 11 - Net Assets (continued)

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



## Dauphin County Library System

### Notes to Financial Statements

December 31, 2016 and 2015

#### Note 12 - Net Assets Released from Restrictions

Net assets released from donor restrictions, which include library materials, programming, and other items, were \$207,013 and \$127,938 for the years ended December 31, 2016 and 2015, respectively.

#### Note 13 - Defined Benefit Pension Plan

The Library has a defined benefit pension plan covering employees who meet age and service requirements. 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. For the plan years ended December 31, 2016 and 2015, active employees in the defined benefit pension plan are required to contribute 1% of pay up to \$25,000 and 5% of pay in excess of \$25,000. Employee contributions are not credited with interest. Effective January 1, 2017, this requirement was discontinued.

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

	2016	
	Fair Value	(Level 1)
<b>Money Market Fund</b>	\$ 25,426	\$ 25,426
<b>Mutual Funds</b>		
Equity funds	3,020,554	3,020,554
Fixed income funds	2,039,128	2,039,128
	<u>\$ 5,085,108</u>	<u>\$ 5,085,108</u>
	2015	
<b>Money Market Fund</b>	\$ 19,892	\$ 19,892
<b>Mutual Funds</b>		
Equity funds	2,884,600	2,884,600
Fixed income funds	1,909,795	1,909,795
	<u>\$ 4,814,287</u>	<u>\$ 4,814,287</u>

## Dauphin County Library System

### Notes to Financial Statements

December 31, 2016 and 2015

#### Note 13 - 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>2016</u>	<u>2015</u>
<b>Change in Benefit Obligation</b>		
Projected benefit obligation at beginning of year	\$ 6,360,045	\$ 6,268,208
Change due to change in assumptions	(60,569)	(152,741)
Interest cost	261,898	248,242
Service cost (net of assumed expenses)	229,212	250,110
Benefit payments	(291,283)	(253,774)
Projected benefit obligation at end of year	<u>6,499,303</u>	<u>6,360,045</u>
<b>Change in Plan Assets</b>		
Fair value of plan assets at beginning of year	4,814,287	4,913,066
Actual return on plan assets	415,319	(69,420)
Employer and employee contributions	146,785	224,415
Benefit payments (including assumed expenses)	(291,283)	(253,774)
Fair value of plan assets at end of year	<u>5,085,108</u>	<u>4,814,287</u>
<b>Funded Status and Accrued Pension Liability</b>	<u>\$ (1,414,195)</u>	<u>\$ (1,545,758)</u>

The Library's unrestricted net assets include \$1,731,759 and \$1,884,900 of net loss not yet recognized in net periodic pension expense as of December 31, 2016 and 2015, respectively. Approximately \$77,000 of the net loss included in changes in net assets will be recognized in net periodic pension expense during the year ending December 31, 2017.

The accumulated benefit obligation amounted to \$5,896,339 and \$5,735,675 as of December 31, 2016 and 2015, respectively.

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

	<u>2016</u>	<u>2015</u>
Service cost	\$ 229,212	\$ 250,110
Interest cost	261,898	248,242
Net amortization of prior service cost, transition obligation, and net loss	79,632	66,457
Expected return on plan assets	(402,379)	(412,159)
Employee contributions	(54,690)	(59,220)
<b>Net Periodic Pension Cost</b>	<u>\$ 113,673</u>	<u>\$ 93,430</u>

## Dauphin County Library System

### Notes to Financial Statements

December 31, 2016 and 2015

#### Note 13 - Defined Benefit Pension Plan (continued)

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>2016</u>	<u>2015</u>
Discount rate	4.25%	4.00%
Expected long-term rate of return on plan assets	8.50	8.50
Rate of increase in future compensation	3.00	3.00

The basis for the long-term expected rate of return is based on the Library's risk tolerance and historical trends of its invested plan asset mix. The expected rate of return has not been adjusted recently, since historically it has not fluctuated above or below that rate significantly, and based on the current asset class mix and risk tolerance, the expected future return is 8.50%.

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:

2017	\$ 326,238
2018	367,487
2019	361,021
2020	377,558
2021	388,157
2022 - 2026	1,935,714

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.

The Library funds the pension plan on an annual basis based on a contribution amount determined by management. The Library expects to make contributions of \$133,901 for the year ending December 31, 2017.

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

	<u>2016</u>	<u>2015</u>
<b>Money Market Fund</b>	0.50%	0.41%
<b>Mutual Funds</b>		
Invested primarily in fixed income funds	40.10%	39.67%
Invested primarily in equity securities	59.40%	59.92%
	<u>100.00%</u>	<u>100.00%</u>

## Dauphin County Library System

### Notes to Financial Statements

December 31, 2016 and 2015

#### Note 13 - 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 securities	40 - 80 %
Fixed income securities	20 - 60
Cash and cash equivalents	0 - 15

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

#### Note 14 - 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 are not eligible to participate in the defined benefit pension plan.

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 1 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>
0-1	0 %
2	20
3	40
4	60
5	80
6 or more	100

As of December 31, 2016, there were 12 active members in the defined contribution pension plan and contributions to the plan totaled \$10,517. All contributions were included in accounts payable at December 31, 2016.

## Dauphin County Library System

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### Notes to Financial Statements

December 31, 2016 and 2015

#### Note 15 - Line of Credit

The Library has an unsecured \$350,000 line of credit with M&T Bank. Interest is charged at the bank's base rate which was 4.25% as of December 31, 2016 and 2015. There were no amounts outstanding at December 31, 2016 and 2015.

#### Note 16 - Commitments

The Library leases various operating equipment under operating leases. Rent expense under these agreements amounted to \$79,633 and \$50,857 for the years ended December 31, 2016 and 2015, respectively. Future minimum lease payments, assuming no changes in current terms, consist of the following for the remaining four years ending December 31:

2017	\$	68,980
2018		65,987
2019		53,616
2020		4,386

#### Note 17 - 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 \$4,494,675 and \$4,435,464 for the years ended December 31, 2016 and 2015, respectively. In addition, the Commonwealth of Pennsylvania contributes amounts which are also determined annually. These amounts totaled \$1,360,630 and \$1,343,305 for the years ended December 31, 2016 and 2015, respectively. Also, Lower Paxton Township provided \$125,144 and \$125,627 from real estate tax assessments for the years ended December 31, 2016 and 2015, respectively. In total, during the years ended December 31, 2016 and 2015, approximately 84% and 87%, respectively, of the Library's revenue consisted of these tax appropriations.

#### Note 18 - Subsequent Events

The Library has evaluated subsequent events through June 13, 2017. This date is the date the financial statements were available to be issued. No material events subsequent to December 31, 2016 were noted.

# Dauphin County Library System

## Statement of Operating and Non-Operating Support and Revenue

	December 31,	
	2016	2015
<b>Operating Support</b>		
<b>Tax Appropriations</b>		
Dauphin County	\$ 4,494,675	\$ 4,435,464
Commonwealth of Pennsylvania	1,360,630	1,343,305
Local governments	125,144	125,627
<b>Total Tax Appropriations</b>	<b>5,980,449</b>	<b>5,904,396</b>
<b>Grants</b>	<b>201,782</b>	<b>200,501</b>
<b>Contributions</b>		
Funds and foundations	213,729	112,448
Other	395,650	502,827
<b>Total Contributions</b>	<b>609,379</b>	<b>615,275</b>
<b>Total Operating Support</b>	<b>6,791,610</b>	<b>6,720,172</b>
<b>Operating Revenue</b>		
Desk receipts	170,894	184,715
Negotiated services	17,353	19,563
Other	9,809	12,127
Printing	1,017	1,193
Credit bureau	7,819	11,939
Miscellaneous	-	969
<b>Total Operating Revenue</b>	<b>206,892</b>	<b>230,506</b>
<b>Total Operating Support and Revenue</b>	<b>\$ 6,998,502</b>	<b>\$ 6,950,678</b>
<b>Non-Operating Revenue</b>		
<b>Investment Income</b>		
Realized losses on sale of investment	\$ (28,303)	\$ (46,231)
Investment income	64,223	64,363
<b>Total Investment Income</b>	<b>35,920</b>	<b>18,132</b>
<b>Change in Fair Value of</b>		
Beneficial interest held by third parties	(62,899)	(112,540)
Endowment funds held	109,796	(86,290)
<b>Total Change in Fair Value</b>	<b>46,897</b>	<b>(198,830)</b>
<b>Pension Related Changes Other Than Net Periodic Pension Cost</b>	<b>153,141</b>	<b>(262,381)</b>
<b>Total Non-Operating Revenue</b>	<b>\$ 235,958</b>	<b>\$ (443,079)</b>

# Dauphin County Library System

## Statement of Functional Expenses

	Year Ended December 31, 2016			
	Library Services	Management and General	Fundraising	Total
Bank fees	\$ -	\$ 6,063	\$ -	\$ 6,063
Building and equipment maintenance	416,002	46,222	-	462,224
Depreciation				
Buildings, furnishings, and equipment	559,447	35,709	-	595,156
Library materials	599,868	-	-	599,868
Vehicles	12,792	7,420	-	20,212
Electronic library materials	118,648	-	-	118,648
Employee benefits	373,532	76,598	1,715	451,845
Freight and postage	13,362	762	15,912	30,036
Insurance	27,819	8,546	191	36,556
Interest	-	-	-	-
Investment fees	-	19,882	-	19,882
Licensing and equipment rental	184,288	12,135	-	196,423
Memberships	18,108	7,146	-	25,254
Miscellaneous	416	1,721	-	2,137
Newspapers	25,839	-	-	25,839
On-line loan and catalog service	43,361	-	-	43,361
Outsourcing charges	11,069	-	-	11,069
Payroll taxes	204,258	49,684	22,082	276,024
Periodicals	76,797	-	-	76,797
Printing	26,430	-	20,680	47,110
Professional fees	45,255	53,336	13,415	112,006
Program expenses	338,250	5,449	-	343,699
Salaries	2,656,503	646,176	287,189	3,589,868
Supplies	34,768	7,632	-	42,400
Telephone and utilities	233,301	38,547	-	271,848
Travel and training	104,086	17,666	-	121,752
Vehicles, repairs, and maintenance	14,419	6,648	-	21,067
	<u>\$ 6,138,618</u>	<u>\$ 1,047,342</u>	<u>\$ 361,184</u>	<u>\$ 7,547,144</u>

	Year Ended December 31, 2015			
	Library Services	Management and General	Fundraising	Total
Bank fees	\$ -	\$ 5,944	\$ -	\$ 5,944
Building and equipment maintenance	417,253	41,724	-	458,977
Depreciation				
Buildings, furnishings, and equipment	559,792	35,731	-	595,523
Library materials	606,482	-	-	606,482
Vehicles	9,838	5,707	-	15,545
Electronic library materials	92,343	-	-	92,343
Employee benefits	317,120	74,696	1,569	393,385
Freight and postage	13,277	757	15,812	29,846
Insurance	42,696	13,116	294	56,106
Interest	54	26	-	80
Investment fees	-	20,524	-	20,524
Licensing and equipment rental	228,429	15,042	-	243,471
Memberships	14,696	5,800	-	20,496
Miscellaneous	738	3,053	-	3,791
Newspapers	29,272	-	-	29,272
On-line loan and catalog service	40,311	-	-	40,311
Outsourcing charges	12,794	-	-	12,794
Payroll taxes	211,772	54,111	823	266,706
Periodicals	40,940	-	-	40,940
Printing	14,558	-	11,391	25,949
Professional fees	71,816	84,639	21,289	177,744
Program expenses	231,476	3,729	-	235,205
Salaries	2,800,366	572,889	10,795	3,384,050
Supplies	38,897	11,306	-	50,203
Telephone and utilities	224,564	27,821	-	252,385
Travel and training	97,988	16,631	-	114,619
Vehicles, repairs, and maintenance	15,238	7,026	-	22,264
	<u>\$ 6,132,710</u>	<u>\$ 1,000,272</u>	<u>\$ 61,973</u>	<u>\$ 7,194,955</u>