



Dauphin County Library System

**Financial Statements and
Supplementary Information**

December 31, 2022 and 2021



Dauphin County Library System

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December 31, 2022 and 2021

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Independent Auditor's Report

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

Opinion

We have audited the financial statements of Dauphin County Library System (the Library), which comprise the statement of financial position as of December 31, 2022 and 2021, the related statements of activities, functional expenses - by natural classification, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Library as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Supplementary Information

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

RKL LLP

June 14, 2023
York, Pennsylvania

Dauphin County Library System

Statement of Financial Position

	December 31,	
	2022	2021
Assets		
Cash and cash equivalents	\$ 1,237,652	\$ 1,240,404
Restricted cash	708,290	948,552
Accounts receivable	155,440	142,079
Promises to give, net	1,321,275	564,635
Prepaid expenses	217,979	210,051
Fixed assets, net	18,493,378	14,728,617
Right-of-use assets, operating leases	161,377	-
Certificates of deposit	1,453,917	1,448,782
Endowment funds held	3,456,875	3,870,479
Beneficial interests held by third parties	1,244,680	1,848,795
Total Assets	\$ 28,450,863	\$ 25,002,394
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 444,880	\$ 721,294
Accrued payroll, vacation, payroll taxes, and withholdings	247,790	277,780
Note payable	1,559,207	-
Operating lease liability	161,377	-
Defined benefit pension plan obligation	1,283,015	1,619,175
Total Liabilities	3,696,269	2,618,249
Net Assets		
Without donor restrictions	19,000,502	15,090,964
With donor restrictions	5,754,092	7,293,181
Total Net Assets	24,754,594	22,384,145
Total Liabilities and Net Assets	\$ 28,450,863	\$ 25,002,394

Dauphin County Library System

Statement of Activities

	Year Ended December 31, 2022		
	Without Donor Restrictions	With Donor Restrictions	Totals
Support and Revenue			
Tax appropriations	\$ 6,770,106	\$ -	\$ 6,770,106
Your Place to Belong Capital Campaign	-	3,030,964	3,030,964
Grants	327,459	192,000	519,459
Contributions	194,378	217,489	411,867
In-kind contributions	251,556	-	251,556
Operating revenue	116,433	-	116,433
Net assets released from restrictions	4,095,628	(4,095,628)	-
Total Support and Revenue	11,755,560	(655,175)	11,100,385
Operating Expenses			
Library services	6,286,171	-	6,286,171
Supporting services			
Management and general	1,327,716	-	1,327,716
Fundraising	397,326	-	397,326
Total Operating Expenses	8,011,213	-	8,011,213
Net Change from Operations	3,744,347	(655,175)	3,089,172
Non-Operating Revenue (Expense)			
Forgiveness of note payable	-	-	-
Interest income	10,480	-	10,480
Changes in the fair value of beneficial interests held by third parties	-	(353,065)	(353,065)
Return on endowment funds held, net	(71,507)	(530,849)	(602,356)
Pension related changes other than net periodic pension cost	226,218	-	226,218
Total Non-Operating Revenue (Expense)	165,191	(883,914)	(718,723)
Changes in Net Assets	3,909,538	(1,539,089)	2,370,449
Net Assets at Beginning of Year	15,090,964	7,293,181	22,384,145
Net Assets at End of Year	\$ 19,000,502	\$ 5,754,092	\$ 24,754,594

Dauphin County Library System

Statement of Activities (continued)

	Year Ended December 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Totals
Support and Revenue			
Tax appropriations	\$ 5,886,356	\$ -	\$ 5,886,356
Your Place to Belong Capital Campaign	-	1,808,030	1,808,030
Grants	197,832	47,500	245,332
Contributions	361,283	304,280	665,563
In-kind contributions	184,176	-	184,176
Operating revenue	94,622	-	94,622
Net assets released from restrictions	279,628	(279,628)	-
Total Support and Revenue	7,003,897	1,880,182	8,884,079
Operating Expenses			
Library services	6,216,147	-	6,216,147
Supporting services			
Management and general	1,140,244	-	1,140,244
Fundraising	465,537	-	465,537
Total Operating Expenses	7,821,928	-	7,821,928
Net Change from Operations	(818,031)	1,880,182	1,062,151
Non-Operating Revenue			
Forgiveness of note payable	666,000	-	666,000
Interest income	18,124	-	18,124
Changes in the fair value of beneficial interests held by third parties	-	130,922	130,922
Return on endowment funds held, net	(12,973)	475,742	462,769
Pension related changes other than net periodic pension cost	110,444	-	110,444
Total Non-Operating Revenue	781,595	606,664	1,388,259
Changes in Net Assets	(36,436)	2,486,846	2,450,410
Net Assets at Beginning of Year	15,127,400	4,806,335	19,933,735
Net Assets at End of Year	\$ 15,090,964	\$ 7,293,181	\$ 22,384,145

Dauphin County Library System

Statement of Functional Expenses - by Natural Classification

	Year Ended December 31, 2022			
	Library Services	Supporting Services		Total
		Management and General	Fundraising	
Bank fees	\$ -	\$ 7,180	\$ -	\$ 7,180
Building and equipment maintenance	444,952	49,439	-	494,391
Depreciation				
Buildings, furnishings, and equipment	588,540	37,566	-	626,106
Library materials	892,784	-	-	892,784
Vehicles	25,174	14,785	-	39,959
Employee benefits	314,525	83,668	34,202	432,395
Freight and postage	9,112	518	10,850	20,480
Insurance	45,023	13,833	308	59,164
Licensing and equipment rental	322,195	21,223	-	343,418
Memberships	21,755	8,587	-	30,342
Miscellaneous	607	2,514	-	3,121
Newspapers	15,342	-	-	15,342
Online loan and catalog service	52,127	-	-	52,127
Outsourcing charges	908	-	-	908
Payroll taxes	196,867	48,598	20,535	266,000
Periodicals	24,086	-	-	24,086
Printing	57,827	-	52,784	110,611
Professional fees	74,857	88,236	22,198	185,291
Program expenses	262,526	-	-	262,526
Property taxes	-	-	-	-
Salaries	2,479,364	840,881	256,449	3,576,694
Supplies	28,543	6,266	-	34,809
Telephone and utilities	324,346	71,198	-	395,544
Travel and training	62,338	13,684	-	76,022
Vehicles, repairs, and maintenance	42,373	19,540	-	61,913
	\$ 6,286,171	\$ 1,327,716	\$ 397,326	\$ 8,011,213

Dauphin County Library System

Statement of Functional Expenses - by Natural Classification (continued)

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

Dauphin County Library System

Statement of Cash Flows

	Years Ended December 31,	
	2022	2021
Cash Flows from Operating Activities		
Changes in net assets	\$ 2,370,449	\$ 2,450,410
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	1,558,849	1,535,296
In-kind contributions for library materials	(2,326)	(4,623)
Net unrealized and realized investment (gains) losses	655,092	(432,094)
Change in fair value of beneficial interests held by third parties	353,065	(130,922)
Contributions restricted for endowment	(79,702)	(27,134)
Contributions restricted for fixed assets	(3,032,511)	(1,815,842)
Change in unamortized discount - promises to give	1,547	7,812
Forgiveness of notes payable	-	(666,000)
Contributions restricted for beneficial interests held by third parties	-	(157,393)
Amortization of right-of-use asset, operating leases included in rent expense	38,083	-
(Increase) decrease in assets		
Accounts receivable	(13,361)	368,463
Prepaid expenses	(7,928)	4,496
Increase (decrease) in liabilities		
Accounts payable	8,942	(58,664)
Accrued payroll, vacation, payroll taxes, and withholdings	(29,990)	4,443
Operating lease liability	(38,083)	-
Defined benefit pension plan obligation	(336,160)	(287,991)
Net Cash Provided by Operating Activities	1,445,966	790,257
Cash Flows from Investing Activities		
Proceeds from sales of investments	178,094	151,006
Purchase of investments	(419,582)	(82,815)
Proceeds from termination of beneficial interest in trusts	251,050	-
Purchase of certificates of deposit - including reinvested interest	(5,135)	(14,025)
Purchase of fixed assets	(5,606,640)	(1,739,966)
Net Cash Used in Investing Activities	(5,602,213)	(1,685,800)
Cash Flows from Financing Activities		
Proceeds from note payable	1,559,207	-
Cash received restricted for endowment	79,702	27,134
Cash received restricted for fixed assets	2,274,324	1,243,395
Net Cash Provided by Financing Activities	3,913,233	1,270,529
Net Increase (Decrease) in Cash and Cash Equivalents and Restricted Cash	(243,014)	374,986
Cash and Cash Equivalents and Restricted Cash at Beginning of Year	2,188,956	1,813,970
Cash and Cash Equivalents and Restricted Cash at End of Year	\$ 1,945,942	\$ 2,188,956

See accompanying notes.

Dauphin County Library System

Statement of Cash Flows (continued)

	Years Ended December 31,	
	<u>2022</u>	<u>2021</u>
Cash and Cash Equivalents and Restricted Cash is Comprised		
Cash and cash equivalents	\$ 1,237,652	\$ 1,240,404
Restricted cash	<u>708,290</u>	<u>948,552</u>
	<u>\$ 1,945,942</u>	<u>\$ 2,188,956</u>

Supplementary Schedule of Noncash Investing and Financing Activities

In 2022

A right-of-use asset and corresponding operating lease liability of \$140,592 was recorded for property leases in conjunction with the adoption of Accounting Standards Codification Topic 842, *Leases*. Additionally, a right-of-use asset - operating and operating lease liability of \$58,868 was recorded during the year ended December 31, 2022.

Accounts payable includes \$93,506 of fixed assets.

In 2021

Accounts payable includes \$378,862 of fixed assets.

Dauphin County Library System

Notes to Financial Statements

December 31, 2022 and 2021

Note 1 - Nature of Operations

The Dauphin County Library System (the Library) is a nonprofit corporation offering an impressive range of literacy, cultural, and reference services to more than 235,000 area residents, educators, and business professionals. In recent years, the libraries included in the Library have increasingly become community centers for discussion classes, workshops and seminars, seasonal events, and for meetings of senior citizens' organizations and similar civic groups. The Library's primary sources of support and revenue are tax appropriations and contributions.

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

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

Note 2 - Summary of Significant Accounting Policies

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

Basis of Accounting

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

Financial Statement Presentation

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

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

Net assets without donor restrictions include \$977,028 and \$1,048,535 of board-designated net assets as of December 31, 2022 and 2021, 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, 2022 and 2021

Note 2 - Summary of Significant Accounting Policies (continued)

Financial Statement Presentation (continued)

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

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

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

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

Use of Estimates

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

Cash and Cash Equivalents

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

Dauphin County Library System

Notes to Financial Statements

December 31, 2022 and 2021

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, 2022 and 2021.

Promises to Give

Promises to give are stated at their outstanding balances. Promises to give are recognized when the Library is notified of the promises. The Library considers promises to give to be fully collectible. If collection becomes doubtful, an allowance for uncollectible promises to give will be established, or the accounts will be charged against income when that determination is made by management. Unpaid balances remaining after the stated payment terms are considered past due. Recoveries of previously charged off promises are recorded when received. All promises to give as of December 31, 2022 are considered collectible, and therefore, no allowance for doubtful accounts is deemed necessary. Promises to give that are expected to be received in more than one year are discounted to present value using a risk-adjusted rate of return.

Fixed Assets

Fixed assets are recorded at cost if purchased, or at the estimated fair market value at the date of the gift, if contributed. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. All fixed assets, other than library materials, acquired in excess of \$2,000 with estimated useful lives exceeding one year are capitalized. All appropriate library materials are capitalized. Cost and accumulated depreciation of fixed assets sold or retired are removed from the accounts, and any resulting gain or loss is included in operations. Construction in progress is stated at cost and represents costs incurred on projects which were not completed as of the date of the statement of financial position. These costs are not depreciated until the underlying assets are placed into service.

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of the assets may not be recoverable. An asset is considered to be impaired when the undiscounted estimated net cash flows to be generated by the asset are less than the carrying amount. The impairment recognized is the amount by which the carrying amount exceeds the fair value amount. Fair value estimates are based on assumptions concerning the amount and timing of the estimated future cash flows and the discount rates reflecting varying degrees of perceived risk. Management of the Library has concluded that no impairment adjustments were required during the years ended December 31, 2022 and 2021.

Note 2 - Summary of Significant Accounting Policies (continued)

Right-of-Use Assets and Liabilities

In February 2016, the FASB issued ASC Topic 842, *Leases*, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their statement of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, *Leases*) and operating leases, with classification affecting the pattern of expense recognition in the statement of activities. The Library adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Library has applied Topic 842 to reporting periods beginning on January 1, 2022, while prior periods continue to be reported and disclosed in accordance with the Library's historical accounting treatment under ASC Topic 840, *Leases*.

The Library elected the "Package of Practical Expedients" under the transition guidance within Topic 842, in which the Library does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Library has not elected to adopt the "hindsight" practical expedient and, therefore, will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on January 1, 2022.

The Library determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Library obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Library also considers whether its service arrangements include the right to control the use of an asset.

The Library made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022 for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Library made an accounting policy election available to nonpublic companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Dauphin County Library System

Notes to Financial Statements

December 31, 2022 and 2021

Note 2 - Summary of Significant Accounting Policies (continued)

Right-of-Use Assets and Liabilities (continued)

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

Adoption of Topic 842 resulted in the recording of an additional ROU asset and lease liability related to the Library's operating leases of \$140,592 at January 1, 2022. The adoption of the new lease standard did have a material impact to the statement of financial position, but did not materially impact changes in the Library's net assets or cash flows and did not result in a cumulative-effect adjustment to the opening balance of net assets.

Beneficial Interests Held by Third Parties

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

Donated Materials and Services

Donated or contributed investments, services, or materials meeting the criteria for recognition, are reflected in the financial statements as in-kind contributions at their estimated value on the date of receipt. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at the fair value when received.

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.

Note 2 - Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

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. When a restriction expires, that is, when a stipulated time restriction or purpose restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from 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.

Endowment Funds Held

Investments in debt and equity securities with readily determinable fair values are reported at fair value. Unrealized gains and losses are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Realized gains and losses, if any, on the sale or disposal of investments are computed on a specific identification basis and are also included as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

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.

Note 2 - Summary of Significant Accounting Policies (continued)

Endowment Funds Held (continued)

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, 2019.

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, 2022 and 2021

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 \$74,653 and \$27,729 for the years ended December 31, 2022 and 2021, respectively.

Change in Accounting Principles

In September 2020, the FASB issued Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires 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 requires 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. During the year ended December 31, 2022, the Library implemented the provisions of this standard.

Dauphin County Library System

Notes to Financial Statements

December 31, 2022 and 2021

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>2022</u>	<u>2021</u>
Financial Assets		
Cash and cash equivalents	\$ 1,237,652	\$ 1,240,404
Restricted cash	708,290	948,552
Accounts receivable	155,440	142,079
Promises to give, net	1,321,275	564,635
Certificates of deposit	1,453,917	1,448,782
Endowment funds held	3,456,875	3,870,479
Beneficial interests held by third parties	1,244,680	1,848,795
Total Financial Assets	<u>9,578,129</u>	<u>10,063,726</u>
Amounts Not Available to be Used for General Expenditures Within One Year		
Purpose restricted net assets	(2,029,565)	(1,763,187)
Donor-restricted endowment funds	(3,724,527)	(4,670,739)
Board-designated endowment funds	(977,028)	(1,048,535)
Total Amounts Not Available to be Used for General Expenditures Within One Year	<u>(6,731,120)</u>	<u>(7,482,461)</u>
Financial Assets Available to be Used for General Expenditures Within One Year	<u>\$ 2,847,009</u>	<u>\$ 2,581,265</u>

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

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

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

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

Dauphin County Library System

Notes to Financial Statements

December 31, 2022 and 2021

Note 4 - Grants

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

	<u>2022</u>	<u>2021</u>
E-rate program	\$ 163,833	\$ 146,254
Other grants	163,626	51,578
Educational Improvement Tax Credit program	192,000	47,500
	<u>\$ 519,459</u>	<u>\$ 245,332</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>2022</u>	<u>2021</u>
Money market and savings	\$ 1,557,618	\$ 1,724,931
Checking	387,044	462,745
Petty cash	1,280	1,280
	<u>\$ 1,945,942</u>	<u>\$ 2,188,956</u>

Note 6 - Promises to Give

Promises to give - Your Place to Belong Capital Campaign represents funds raised for the renovation and restoration of the McCormick Riverfront Library and the Haldeman Haly House. The promises to give that were acquired during the year ended December 31, 2022 and prior, and are expected to be collected in more than one year, are discounted to present value using risk-adjusted rates of return ranging from 1.52% to 3.88%.

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

	<u>2022</u>	<u>2021</u>
Promises to give - Your Place to Belong Capital Campaign	\$ 1,330,634	\$ 572,447
Unamortized discount	(9,359)	(7,812)
	<u>\$ 1,321,275</u>	<u>\$ 564,635</u>
Current portion	\$ 1,266,198	\$ 438,753
Noncurrent portion	55,077	125,882
	<u>\$ 1,321,275</u>	<u>\$ 564,635</u>

Dauphin County Library System

Notes to Financial Statements

December 31, 2022 and 2021

Note 6 - Promises to Give (continued)

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

2023	\$	1,266,198
2024		41,757
2025		22,679
		<u>22,679</u>
	\$	<u>1,330,634</u>

During the years ended December 31, 2022 and 2021, one and three donors accounted for approximately 76% and 73% of promises to give, net, respectively.

Note 7 - Fixed Assets

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

	<u>2022</u>	<u>2021</u>
Buildings, furnishings, and equipment	\$ 27,587,221	\$ 21,690,950
Library materials	4,017,523	3,942,598
Land*	922,455	922,455
Vehicles	291,265	245,075
Construction in progress*	-	1,496,874
	<u>32,818,464</u>	<u>28,297,952</u>
Accumulated depreciation	<u>(14,325,086)</u>	<u>(13,569,335)</u>
	<u>\$ 18,493,378</u>	<u>\$ 14,728,617</u>

* Not depreciated

As of December 31, 2021, construction in progress includes costs related to the renovation and restoration of the McCormick Riverfront Library and the Haldeman Haly House. During the year ended December 31, 2022, the projects were completed and the related assets were placed into service.

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

	<u>2022</u>	<u>2021</u>
Cost of materials at beginning of year	\$ 3,942,598	\$ 3,679,207
Materials purchased and donated	878,023	919,089
Materials fully depreciated and deleted	<u>(803,098)</u>	<u>(655,698)</u>
	<u>\$ 4,017,523</u>	<u>\$ 3,942,598</u>

Dauphin County Library System

Notes to Financial Statements

December 31, 2022 and 2021

Note 8 - Fair Value Measurements

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

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical investment.
- Level 2 - Other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.).
- Level 3 - Significant unobservable inputs (including the Library's own assumptions in determining the fair value of investments).

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

The following valuation techniques were used to measure fair value of assets in the tables on the following pages on a recurring basis as of December 31, 2022 and 2021:

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 - Fair value of mutual funds 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, 2022 and 2021 because of the short maturities of those instruments.

Dauphin County Library System

Notes to Financial Statements

December 31, 2022 and 2021

Note 8 - Fair Value Measurements (continued)

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

	Fair Value Measurements as of December 31, 2022			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>\$ 1,453,917</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,453,917</u>
Endowment Funds Held				
Cash and cash equivalents	<u>\$ 371,383</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 371,383</u>
Mutual funds - equity				
Large cap	1,352,107	-	-	1,352,107
International	379,610	-	-	379,610
Small/mid cap	309,817	-	-	309,817
Mutual funds - fixed income				
Multi-sector	876,105	-	-	876,105
U.S. Treasuries	-	-	-	-
Mutual funds - other				
Long/short equity	94,045	-	-	94,045
Multi-strategy	<u>73,808</u>	<u>-</u>	<u>-</u>	<u>73,808</u>
Total Mutual Funds	<u>3,085,492</u>	<u>-</u>	<u>-</u>	<u>3,085,492</u>
Total Endowment Funds Held	<u>\$ 3,456,875</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,456,875</u>
Beneficial Interests Held by Third Parties	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,244,680</u>	<u>\$ 1,244,680</u>

Dauphin County Library System

Notes to Financial Statements

December 31, 2022 and 2021

Note 8 - Fair Value Measurements (continued)

	Fair Value Measurements as of December 31, 2021			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Certificates of Deposit	<u>\$ 1,448,782</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,448,782</u>
Endowment Funds Held				
Cash and cash equivalents	<u>\$ 219,490</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 219,490</u>
Mutual funds - equity				
Large cap	1,541,453	-	-	1,541,453
International	559,492	-	-	559,492
Small/mid cap	444,986	-	-	444,986
Mutual funds - fixed income				
Multi-sector	886,880	-	-	886,880
U.S. Treasuries	42,978	-	-	42,978
Mutual funds - other				
Long/short equity	107,108	-	-	107,108
Multi-strategy	<u>68,092</u>	<u>-</u>	<u>-</u>	<u>68,092</u>
Total Mutual Funds	<u>3,650,989</u>	<u>-</u>	<u>-</u>	<u>3,650,989</u>
Total Endowment Funds Held	<u>\$ 3,870,479</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,870,479</u>
Beneficial Interests Held by Third Parties	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,848,795</u>	<u>\$ 1,848,795</u>

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.

Dauphin County Library System

Notes to Financial Statements

December 31, 2022 and 2021

Note 8 - Fair Value Measurements (continued)

Changes in Fair Value Levels (continued)

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. There were no contributions related to beneficial interests held by third parties during the year ended December 31, 2022. During the year ended December 31, 2021, contributions related to beneficial interests held by third parties, classified as Level 3, amounted to \$157,393. During the year ended December 31, 2022, beneficial interests held by third parties with a fair market value of \$251,050 were terminated and assets were paid out in full. There were no terminations during the year ended December 31, 2021. There were no other transfers in or out of Level 3 assets during the years ended December 31, 2022 and 2021.

Note 9 - Endowment Funds Held

Endowment funds held were as follows as of December 31:

	2022		2021	
	Cost	Fair Value	Cost	Fair Value
Cash and Cash Equivalents	<u>\$ 371,383</u>	<u>\$ 371,383</u>	<u>\$ 219,490</u>	<u>\$ 219,490</u>
Mutual Funds - Equity				
Large cap	1,433,850	1,352,107	1,201,416	1,541,453
International	399,742	379,610	486,897	559,492
Small/mid cap	276,570	309,817	305,026	444,986
Mutual Funds - Fixed Income				
Multi-sector	982,195	876,105	882,172	886,880
U.S. Treasuries	-	-	42,978	42,978
Mutual Funds - Other				
Long/short equity	95,508	94,045	98,653	107,108
Multi-strategy	81,198	73,808	63,848	68,092
Total Mutual Funds	<u>3,269,063</u>	<u>3,085,492</u>	<u>3,080,990</u>	<u>3,650,989</u>
	<u>\$ 3,640,446</u>	<u>\$ 3,456,875</u>	<u>\$ 3,300,480</u>	<u>\$ 3,870,479</u>

Dauphin County Library System

Notes to Financial Statements

December 31, 2022 and 2021

Note 9 - Endowment Funds Held (continued)

Return on endowment funds held, net, consists of the following for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Realized investment gains	\$ 98,478	\$ 341,654
Dividends and interest, net	52,736	30,675
Unrealized investment gains (losses)	<u>(753,570)</u>	<u>90,440</u>
	<u>\$ (602,356)</u>	<u>\$ 462,769</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 fair value of beneficial interest held by third parties recorded in the Library's statement of financial position includes the following as of December 31:

	<u>2022</u>	<u>2021</u>
William Donaldson (under will)	\$ 551,686	\$ 696,118
Edith Demain	355,991	452,783
Charlotte L. Shuey	206,945	261,778
Robert Hanson	77,246	75,819
Thomas Wierman	52,812	65,102
Ida Browning	-	171,944
William Donaldson (under agreement)	-	125,251
	<u>\$ 1,244,680</u>	<u>\$ 1,848,795</u>

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. The Library applied for a loan under this Program and received from M&T Bank, a loan in the amount of \$834,000 on April 17, 2020. On May 14, 2020, the Library repaid \$168,000 of the loan. The unpaid portion of the loan was forgivable if the Library met certain criteria as established under the Program. The loan was unsecured and did not require personal guarantees. In February 2021, the Library was notified by M&T Bank that the outstanding loan balance had been forgiven in full by the Small Business Administration.

Dauphin County Library System

Notes to Financial Statements

December 31, 2022 and 2021

Note 11 - Note Payable (continued)

On December 30, 2021, the Library entered into a loan agreement with M&T Bank to finance construction costs related to the renovation and restoration of the McCormick Riverfront Library and the Haldeman Haly House. The note is a draw down note and provides for borrowings up to \$3,500,000. The Library is able to draw down the principal balance of the note in multiple advances during the construction loan period which extends from the date of the note through the date the loan converts to a permanent loan. The conversion date will be the earlier of the payment due date in the calendar month that is the eighteenth month from the date of the note, or the first payment due date following the date the final advance is made to the Library. During the construction loan period, interest will be charged at a variable rate equal to 0.25% below the Bank's daily prime rate with a floor of 0.00%. Interest only payments will be due monthly during the construction loan period. After converting to a permanent loan, interest will be a fixed rate at 2.00% above the Bank's Cost of Funds rate as of the conversion date. After the loan converts to a permanent loan, monthly principal and interest payments will be required. The maturity date of the loan shall be 240 months following the conversion date. The loan is collateralized by the properties on North Front Street (McCormick Riverfront Library and Haldeman Haly House) as well as the Library's Ethel Street property (East Shore Area Library). Borrowings related to this loan amounted to \$1,559,207 as of December 31, 2022. There were no borrowings on the loan as of December 31, 2021. In June 2023, the Library entered into a loan modification agreement with M&T Bank to extend the interest only repayment period, which was originally effective on July 7, 2023, for three months before converting to permanent financing.

Note 12 - Endowment Funds

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

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

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

The Library's overall objective is to provide for current programming, while preserving the endowment's long-term value. Annually, the Board of Directors identifies the Organization's needs for access to the funds and approves the spending policy.

There is no regulatory requirement to restore permanent fund deficiencies and accounting standards provide that the generally accepted rule of reporting such deficiencies as net assets without donor restrictions should be applied only in the absence of donor stipulations or laws to the contrary. The Organization has interpreted state law to allow spending of the original principal with no requirement to restore fund deficiencies to the original value. As such, the Library has no underwater endowments as of December 31, 2022 and 2021. Any fund deficiencies are reported as reductions to net assets with donor restrictions.

Dauphin County Library System

Notes to Financial Statements

December 31, 2022 and 2021

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, 2020	\$ 1,061,508	\$ 4,005,548	\$ 5,067,056
Net investment gain (loss)	(12,973)	606,664	593,691
Contributions	-	184,527	184,527
Disbursements	-	(126,000)	(126,000)
December 31, 2021	1,048,535	4,670,739	5,719,274
Net investment loss	(71,507)	(883,914)	(955,421)
Contributions	-	79,702	79,702
Disbursements	-	(142,000)	(142,000)
December 31, 2022	\$ 977,028	\$ 3,724,527	\$ 4,701,555

Note 13 - Net Assets

Net assets consist of the following as of December 31:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets			
Funds designated by the Board of Trustees to function as an endowment	\$ 977,028	\$ -	\$ 977,028
Funds invested in perpetuity			
Endowment funds held			
Library materials and supplies	-	1,536,746	1,536,746
Operating support	-	458,453	458,453
Youth programming	-	280,887	280,887
Adult programming	-	89,979	89,979
Scholarships	-	60,811	60,811
Maintenance	-	52,971	52,971
Beneficial interests held by third parties	-	1,244,680	1,244,680
Total Endowment Net Assets	977,028	3,724,527	4,701,555

Dauphin County Library System

Notes to Financial Statements

December 31, 2022 and 2021

Note 13 - Net Assets (continued)

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Purpose Restricted Net Assets			
Library materials	\$ -	\$ 439,705	\$ 439,705
Building renovations	-	1,589,860	1,589,860
Total Purpose Restricted Net Assets	-	2,029,565	2,029,565
Net Assets Without Donor Restrictions			
Defined benefit pension reserve	2,240,908	-	2,240,908
Other	15,782,566	-	15,782,566
Total Net Assets Without Donor Restrictions	18,023,474	-	18,023,474
Total Net Assets	\$ 19,000,502	\$ 5,754,092	\$ 24,754,594
2021			
Endowment Net Assets			
Funds designated by the Board of Trustees to function as an endowment	\$ 1,048,535	\$ -	\$ 1,048,535
Funds invested in perpetuity			
Endowment funds held			
Library materials and supplies	-	1,612,555	1,612,555
Operating support	-	497,078	497,078
Youth programming	-	363,723	363,723
Adult programming	-	110,068	110,068
Scholarships	-	150,425	150,425
Maintenance	-	88,095	88,095
Beneficial interests held by third parties	-	1,848,795	1,848,795
Total Endowment Net Assets	1,048,535	4,670,739	5,719,274
Purpose Restricted Net Assets			
Library materials	-	437,162	437,162
Building renovations	-	2,185,280	2,185,280
Total Purpose Restricted Net Assets	-	2,622,442	2,622,442

Dauphin County Library System

Notes to Financial Statements

December 31, 2022 and 2021

Note 13 - Net Assets (continued)

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Net Assets Without Donor Restrictions			
Defined benefit pension reserve	\$ 2,467,126	\$ -	\$ 2,467,126
Other	11,575,303	-	11,575,303
Total Net Assets Without Donor Restrictions	<u>14,042,429</u>	<u>-</u>	<u>14,042,429</u>
Total Net Assets	<u>\$ 15,090,964</u>	<u>\$ 7,293,181</u>	<u>\$ 22,384,145</u>

Note 14 - Net Assets Released from Restrictions

Net assets released from donor restrictions, which include construction costs, library materials, programming, and other items, were \$4,095,628 and \$279,628 for the years ended December 31, 2022 and 2021, 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, 2022 and 2021

Note 15 - Defined Benefit Pension Plan (continued)

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

	2022	
	Fair Value	(Level 1)
Cash and Cash Equivalents	\$ 33,024	\$ 33,024
Mutual Funds		
Equity funds	2,520,306	2,520,306
Fixed income funds	1,653,631	1,653,631
	<u>\$ 4,206,961</u>	<u>\$ 4,206,961</u>
	2021	
Cash and Cash Equivalents	\$ 33,416	\$ 33,416
Mutual Funds		
Equity funds	3,253,479	3,253,479
Fixed income funds	2,101,029	2,101,029
	<u>\$ 5,387,924</u>	<u>\$ 5,387,924</u>

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

	2022	2021
Change in Benefit Obligation		
Projected benefit obligation at beginning of year	\$ 7,007,099	\$ 7,223,170
Change due to change in assumptions	(1,310,645)	226,303
Interest cost	203,567	172,810
Experience loss	(3,787)	(91,208)
Benefit payments	(406,258)	(523,976)
Projected benefit obligation at end of year	<u>5,489,976</u>	<u>7,007,099</u>
Change in Plan Assets		
Fair value of plan assets at beginning of year	5,387,924	5,316,004
Employer contributions	-	43,815
Actual return on plan assets	(774,705)	552,081
Benefit payments (including assumed expenses)	(406,258)	(523,976)
Fair value of plan assets at end of year	<u>4,206,961</u>	<u>5,387,924</u>
Funded Status and Accrued Pension Liability	<u>\$ (1,283,015)</u>	<u>\$ (1,619,175)</u>

Dauphin County Library System

Notes to Financial Statements

December 31, 2022 and 2021

Note 15 - Defined Benefit Pension Plan (continued)

The Library's net assets without donor restrictions include \$2,240,908 and \$2,467,126 of net loss not yet recognized in net periodic pension expense as of December 31, 2022 and 2021, respectively. It is estimated that approximately \$121,000 of the net loss included in changes in net assets will be recognized in net periodic pension expense during the year ending December 31, 2023.

The accumulated benefit obligation amounted to \$5,489,976 and \$7,007,099 as of December 31, 2022 and 2021, respectively.

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

	<u>2022</u>	<u>2021</u>
Interest cost	\$ 203,567	\$ 172,810
Net amortization of prior service cost, transition obligation, and net loss	125,941	126,655
Expected return on plan assets	<u>(439,450)</u>	<u>(433,197)</u>
Net Periodic Pension Cost	<u>\$ (109,942)</u>	<u>\$ (133,732)</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>2022</u>	<u>2021</u>
Discount rate	5.00 %	3.00 %
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:

2023	\$ 393,127
2024	382,475
2025	380,379
2026	390,223
2027	378,613
2028 to 2032	1,918,926

Dauphin County Library System

Notes to Financial Statements

December 31, 2022 and 2021

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.

Since the plan was amended to freeze benefit accruals on January 1, 2018, no contribution is anticipated for the year ending December 31, 2023.

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

	<u>2022</u>	<u>2021</u>
Cash and Cash Equivalents	0.80 %	0.60 %
Mutual Funds		
Equity funds	59.90	60.40
Fixed income funds	39.30	39.00
	<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, 2022 and 2021

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 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, 2022, there were 103 active members in the defined contribution pension plan and 11 vested former members. Contributions to the plan during the years ended December 31, 2022 and 2021 totaled \$82,348 and \$87,895, respectively. At December 31, 2022 and 2021, 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 8.50% and 4.25% as of December 31, 2022 and 2021, respectively. There were no borrowings on the line of credit at December 31, 2022 and 2021.

Note 18 - Leases

The Library leases various operating equipment under operating leases with terms ranging from three to five years. The Library's leases generally do not contain any material restrictive covenants or residual value guarantees. The leases require monthly payments. Operating lease fixed payments totaled \$40,551 for the year ended December 31, 2022. The Library uses the applicable risk-free rate as the discount rate for its operating leases. The average remaining lease term is 3.38 years and the weighted-average discount rate is 1.83%.

The Library also has operating leases for certain office equipment that are considered short term in nature. The Library does not have any finance lease agreements.

Operating lease cost is recognized on a straight-line basis over the lease term. The components of lease expense are as follows for the year ended December 31, 2022:

Operating lease cost	\$ 40,551
Short-term lease cost	<u>48,210</u>
Total Lease Cost	<u>\$ 88,761</u>

Dauphin County Library System

Notes to Financial Statements

December 31, 2022 and 2021

Note 18 - Leases (continued)

Total rent expense for operating leases was \$88,761 for the year ended December 31, 2022, which is included in licensing and equipment rental on the statement of functional expenses - by natural classification.

Future undiscounted cash flows for each of the remaining four years and a reconciliation to the operating lease liability recognized on the statement of financial position are as follows as of December 31, 2022:

2023	\$	50,021
2024		50,021
2025		45,286
2026		20,719
		<hr/>
Total Lease Payments		166,047
Imputed interest		<hr/>
		(4,670)
		<hr/>
Total Present Value of Lease Liabilities	\$	161,377
		<hr/>
Current portion of operating lease liability	\$	47,569
Long-term portion of operating lease liability		113,808
		<hr/>
	\$	161,377
		<hr/>

In addition to the leases discussed above, the Library also has a lease agreement with a local business for office and print shop facilities, which requires no rent payments. The fair market value of the donated rent is included in licensing and equipment rental on the statement of functional expenses - by natural classification. The fair market value of the donated rent has been recorded by the Library as an in-kind contribution (refer to Note 19).

Note 19 - In-Kind Contributions

In-kind contributions meeting the requirements for recognition in the statement of activities consist of the following for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Summer reading program	\$ 120,125	\$ 153,900
Rent	79,105	25,653
Marketing	50,000	-
Library materials	2,326	4,623
	<hr/>	<hr/>
	\$ 251,556	\$ 184,176
	<hr/>	<hr/>

Dauphin County Library System

Notes to Financial Statements

December 31, 2022 and 2021

Note 19 - In-Kind Contributions (continued)

In-kind contributions related to the summer reading program consist of donated admission and game tickets to local museums and parks, as well as food coupons and free meal vouchers that are awarded to participants in the summer reading program. Contributions to the summer reading program are reported at the estimated fair value based on the value that would be paid to purchase similar products.

Donated rent recognized is comprised of donated office and print shop space. There are no associated donor restrictions related to the donated rent. In valuing the donated rent, the Library estimated the fair value based on the fair rental value that would be paid to purchase comparable space from the lessor.

Donated marketing consists of donated marketing and advertising services. There are no associated donor restrictions related to the donated marketing. Contributed marketing services are reported at the estimated fair value based on current rates for similar services.

Donated library materials is comprised of donated reading materials to be used in the Library's various facilities. There are no associated donor restrictions related to the donated library materials. Donated materials are reported at the estimated fair value based on the value that would be paid to purchase similar products.

In addition to the in-kind contribution amounts recorded in the financial statements, during the years ended December 31, 2022 and 2021, a substantial number of individual volunteers have donated significant amounts of time to the Library's programs and supporting services. These services do not meet the criteria for recognition as contributed services, and are not reflected in the accompanying financial statements.

Note 20 - 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 \$5,077,003 and \$4,713,450 for the years ended December 31, 2022 and 2021, respectively. In addition, the Commonwealth of Pennsylvania contributes amounts which are also determined annually. These amounts totaled \$1,557,168 and \$1,039,746 for the years ended December 31, 2022 and 2021, respectively. Also, Lower Paxton Township provided \$135,935 and \$133,160 from real estate tax assessments for the years ended December 31, 2022 and 2021, respectively. In total, during the years ended December 31, 2022 and 2021, approximately 61% and 66%, respectively, of the Library's total support and revenue consisted of these tax appropriations.

In addition to the above tax appropriations, during the year ended December 31, 2022, the Library received significant support from various federal, state, and local government agencies, primarily in support of the renovation and restoration of the McCormick Riverfront Library and the Haldeman Haly House. In total, during the year ended December 31, 2022, approximately 23% of the Library's total support and revenue consisted of contributions and grants through programs of these government agencies. These programs are subject to program compliance audits by the grantors or their respective oversight agencies. The Library is potentially liable for any expenses, which may be disallowed pursuant to the terms of these programs. Management is not aware of any material items of noncompliance, which would result in the disallowance of program expenses.

Dauphin County Library System

Notes to Financial Statements

December 31, 2022 and 2021

Note 21 - Commitments and Contingencies

The Library is involved in a legal proceeding arising from activities in the ordinary course of business. Although it is not possible to presently determine the final outcome of this matter, management believes the aggregate liability, if any, will not have a material adverse effect on the Library's financial statements.

Note 22 - Reclassifications

Certain information in the 2021 financial statements and related footnotes contain reclassifications necessary to make that information comparable to information presented in the 2022 financial statements. There was no change to total changes in net assets or total net assets as a result of the reclassifications.

Note 23 - Subsequent Events

The Library has evaluated subsequent events through June 14, 2023. This date is the date the financial statements were available to be issued. No material events subsequent to December 31, 2022, other than as discussed in Note 11, were noted.

Dauphin County Library System

Schedule of Operating and Non-Operating Support and Revenue

	Years Ended December 31,	
	2022	2021
Operating Support		
Tax Appropriations		
Dauphin County	\$ 5,077,003	\$ 4,713,450
Commonwealth of Pennsylvania	1,557,168	1,039,746
Lower Paxton Township	135,935	133,160
Total Tax Appropriations	6,770,106	5,886,356
Your Place to Belong Capital Campaign	3,030,964	1,808,030
Grants	519,459	245,332
Contributions		
Other	258,190	579,721
Funds and foundations	153,677	85,842
Total Contributions	411,867	665,563
In-Kind Contributions	251,556	184,176
Total Operating Support	10,983,952	8,789,457
Operating Revenue		
Desk receipts	53,863	62,623
Negotiated services	33,967	18,081
Other	27,267	12,722
Credit bureau	1,336	1,196
Total Operating Revenue	116,433	94,622
Total Operating Support and Revenue	\$ 11,100,385	\$ 8,884,079
Non-Operating Revenue (Expense)		
Forgiveness of Note Payable	\$ -	\$ 666,000
Interest Income	10,480	18,124
Changes in the Fair Value of Beneficial Interests Held by Third Parties	(353,065)	130,922
Return on Endowment Funds Held, Net		
Realized investment gains	98,478	341,654
Dividends and interest, net	52,736	30,675
Unrealized investment gains (losses)	(753,570)	90,440
Total Return on Endowment Funds Held, Net	(602,356)	462,769
Pension Related Changes Other Than Net Periodic Pension Cost	226,218	110,444
Total Non-Operating Revenue (Expense)	\$ (718,723)	\$ 1,388,259