

Bethlehem Area Public Library
(A Component Unit of the City of Bethlehem)

Financial Statements

Year Ended December 31, 2015 with
Independent Auditor's Report

MaherDuessel
Certified Public Accountants

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BETHLEHEM AREA PUBLIC LIBRARY

YEAR ENDED DECEMBER 31, 2015

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Independent Auditor's Report

Board of Directors
Bethlehem Area Public Library

We have audited the accompanying modified cash basis financial statements (financial statements) of the governmental activities and each major fund of the Bethlehem Area Public Library (Library), a component unit of the City of Bethlehem, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

Auditor's Responsibility

Our responsibility is to express opinions 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities and each major fund of the Library as of December 31, 2015, and the respective changes in modified cash basis financial position for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Maher Duessel

Harrisburg, Pennsylvania
July 20, 2016

BETHLEHEM AREA PUBLIC LIBRARY

BALANCE SHEET - MODIFIED CASH BASIS

DECEMBER 31, 2015

	<u>General Fund</u>	<u>Endowment Fund</u>	<u>Total Governmental Activities</u>
Assets			
Cash and cash equivalents	\$ 540,390	\$ -	\$ 540,390
Investments, at cost	-	1,751,465	1,751,465
Total Assets	\$ 540,390	\$ 1,751,465	\$ 2,291,855
Fund Balance/Net Position			
Fund Balance:			
Nonspendable	\$ -	\$ 1,331,119	\$ -
Restricted for:			
Gift and grant disbursements	440,947	-	-
Library materials	-	420,346	-
Unassigned	99,443	-	-
Total Fund Balance	540,390	1,751,465	-
Net Position:			
Restricted:			
Nonexpendable	-	-	1,331,119
Expandable	-	-	861,293
Unrestricted	-	-	99,443
Total Net Position	-	-	2,291,855
Total Fund Balance/Net Position	\$ 540,390	\$ 1,751,465	\$ 2,291,855

The accompanying notes are an integral part of these financial statements.

BETHLEHEM AREA PUBLIC LIBRARY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE/NET POSITION - MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2015

	General Fund	Endowment Fund	Total Governmental Activities
Revenues:			
City of Bethlehem appropriation	\$ 1,277,172	\$ -	\$ 1,277,172
Commonwealth of Pennsylvania appropriation	366,206	-	366,206
Community contracts:			
Bethlehem Township	404,166	-	404,166
Fountain Hill	78,295	-	78,295
Hanover Township	185,068	-	185,068
Investment income	290	170,898	171,188
Overdue charges	108,230	-	108,230
Book rentals	3,088	-	3,088
Buy a Book campaign	13,341	-	13,341
Copy services	14,340	-	14,340
Book sales	55,404	-	55,404
Miscellaneous	19,844	-	19,844
Grants and gifts	243,468	16,250	259,718
Total revenues	2,768,912	187,148	2,956,060
Expenditures:			
Salaries and wages	1,682,201	-	1,682,201
Grant and gift disbursements	419,985	-	419,985
Employee benefits	449,618	-	449,618
Library materials	258,234	-	258,234
Utilities	106,108	-	106,108
Supplies	31,954	-	31,954
Equipment, repairs, and maintenance contracts	51,948	-	51,948
Automation	92,222	-	92,222
Computer network	30,922	-	30,922
Miscellaneous	63,561	8,876	72,437
Transportation and meetings	2,884	-	2,884
Bookmobile	10,319	-	10,319
Legal and accounting	48,675	-	48,675
Total expenditures	3,248,631	8,876	3,257,507

(Continued)

BETHLEHEM AREA PUBLIC LIBRARY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE/NET POSITION - MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2015

(Continued)

	<u>General Fund</u>	<u>Endowment Fund</u>	<u>Total Governmental Activities</u>
Excess (Deficiency) of Revenues Over (Under)			
Expenditures	<u>(479,719)</u>	<u>178,272</u>	<u>(301,447)</u>
Other Financing Sources (Uses):			
Transfers in	90,010	-	-
Transfers out	-	(90,010)	-
Proceeds from line of credit	<u>75,000</u>	<u>-</u>	<u>75,000</u>
Total other financing sources (uses)	<u>165,010</u>	<u>(90,010)</u>	<u>75,000</u>
Net Change in Fund Balance/Net Position	<u>(314,709)</u>	<u>88,262</u>	<u>(226,447)</u>
Fund Balance/Net Position:			
Beginning of year	<u>855,099</u>	<u>1,663,203</u>	<u>2,518,302</u>
End of year	<u><u>\$ 540,390</u></u>	<u><u>\$ 1,751,465</u></u>	<u><u>\$ 2,291,855</u></u>

(Concluded)

The accompanying notes are an integral part of these financial statements.

BETHLEHEM AREA PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Bethlehem Area Public Library (Library) provides educational, informational, cultural, and recreational services to the public. Services are provided in Bethlehem, Pennsylvania, and surrounding municipalities. The Library is considered to be a component unit of the City of Bethlehem (City) and, accordingly, is reflected in the City's financial statements. The Library's major source of funding comes from City and Commonwealth of Pennsylvania (Commonwealth) appropriations.

Basis of Accounting

The accompanying financial statements were prepared on the modified cash basis of accounting. That basis differs from accounting principles generally accepted in the United States of America, primarily because revenue and the related assets are recognized when received rather than when earned, and expenses and related liabilities are recognized when paid rather than when the obligation is incurred, except for the recognition of interfund receivables and payables.

Basis of Presentation

General Fund

The General Fund is used to account for the operations of the Library's unrestricted operating account, activity related to grants received from federal and state governmental agencies, and funds to be used for future programs.

Endowment Fund

The Library has established an Endowment Fund for the purchase of books and other library materials, which generally requires that donations received be invested and only the income earned thereon be expended.

BETHLEHEM AREA PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Net Position

In governmental activities, net position is classified in the following categories:

Restricted – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments, and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This category represents the net position of the Library, which is not restricted for any project or other purpose.

Fund Balance

Governmental funds report fund balance in categories based on the level of constraints placed upon the funds. These levels are as follows:

Nonspendable Fund Balance – This category represents funds that are not in spendable form and includes the principal amount of gifts and grants to the endowment fund.

Restricted Fund Balance – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties.

Unassigned Fund Balance – This category represents all other funds not otherwise defined.

The Library's policy is to use funds in the order of the most restrictive to the least restrictive.

Contributed Facilities

The Library's main facility occupies, without charge, premises located in a building owned by the City. During the year ended December 31, 2015, the Library paid the City \$114,000 for utility and insurance costs.

Income Taxes

The Library is a non-profit organization operating under Internal Revenue Code Section 501(c)(3) and is exempt from federal, state, and local income taxes. In addition, the Library qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation. Further, the Library annually files a Form 990.

BETHLEHEM AREA PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The deposit and investment policy of the Library adheres to prudent business practice.

Deposits

Custodial credit risk - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. As of December 31, 2015, the Library's book balance was \$540,390 and the bank balance was \$902,970. Of the bank balance, \$250,025 was covered by federal depository insurance and \$652,945 was collateralized under Act No. 72 (Act) of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

Investments

The cost and fair value of the investments of the Library at December 31, 2015 were as follows:

	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 392,139	\$ 392,139
Corporate bonds	65,374	66,570
Equities	1,293,952	1,213,449
Total investments	<u>\$ 1,751,465</u>	<u>\$ 1,672,158</u>

Custodial credit risk – Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The Library does not have an investment policy for custodial credit risk. The Library's investment in corporate bonds and equities are held by the financial institution, not in the Library's name. The Library's remaining investment in money market funds is not exposed to custodial credit risk, because it is not evidenced by securities in book entry or paper form.

BETHLEHEM AREA PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Credit risk – The Library does not have a formal policy that would limit its investment choices with regard to credit risk. The Library’s investments had the following level of exposure to credit risk as of December 31, 2015:

	<u>Fair Value</u>	<u>Rating</u>
Money market funds	\$ 392,139	AAA
Corporate bonds	15,087	AA
Corporate bonds	26,315	A+
Corporate bonds	25,168	A-

Concentration of credit risk – The Library places no limit on the amount the Library may invest in any one issuer. At December 31, 2015, no investments were held that were more than five percent of the Library’s total investments.

Interest rate risk – The Library does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The following is a list of the Library's fixed income investments and their related average maturities:

	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>2016</u>	<u>2017-2021</u>
Money market funds	\$ 392,139	\$ 392,139	\$ -
Corporate bonds	66,570	15,087	51,483
Total	<u>\$ 458,709</u>	<u>\$ 407,226</u>	<u>\$ 51,483</u>

3. DEFERRED COMPENSATION PLAN

The Library participated in the Variable Annuity Life Insurance Company and the Nationwide Retirement Systems administered by the Public Employees Benefit Service Corporation, as well as the MetLife Insurance Company 457(b) retirement plan. These plans cover 12 full-time employees and two part-time employees. The employer contribution for the year ended December 31, 2015 was \$3,745.

BETHLEHEM AREA PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

4. COMPENSATED ABSENCES

Accumulated sick time that is expected to be liquidated with available financial resources is not reported as an expenditure by the Library until the employee uses the time. As of December 31, 2015, the Library has a commitment to pay \$16,503 for unused time.

5. INTERFUND TRANSFERS

A reconciliation of the transfers for the year ended December 31, 2015 is as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 90,010	\$ -
Endowment Fund	-	90,010
	<u>\$ 90,010</u>	<u>\$ 90,010</u>

Transfers are primarily for the purchase of library materials.

6. CONCENTRATION OF REVENUES COLLECTED

A significant portion of the Library's programs are funded through an appropriation from the Commonwealth and the City. Continued funding is contingent on approval through each entity's budgeting process.

7. LINE OF CREDIT

Beginning on September 8, 2009, the Library established a line of credit in the amount of \$200,000. The interest rate established by the lender is equal to the prime rate plus .75%. In June 2015, the line of credit was renewed, and will expire on August 31, 2017. At December 31, 2015, \$75,000 was outstanding on the line of credit. This amount was paid back in January 2016.

8. RISK MANAGEMENT

The Library is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance. There were no significant reductions

BETHLEHEM AREA PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

in insurance coverages in 2015. Settlement amounts have not exceeded insurance coverages for the current year or three prior years.

9. COMMITMENTS

Effective January 1, 2013, the Library is no longer a part of the City's Pennsylvania Municipal Retirement System (PMRS) pension plan. The Library will pay the City \$165,444 per year for ten years as part of an agreement to assist the City in meeting unfunded pension plan obligations on retired or fully vested Library employees. Alternatively, the Library offers a 457(b) plan to all remaining and new employees. During the year ended December 31, 2015, the Library paid \$165,444 to PMRS on behalf of the City for the third of ten payments.

During the year ended December 31, 2014, the Library entered into an agreement with a contractor to build a new entrance ramp for the Southside Branch of the Library in the amount of \$34,171. As of December 31, 2015, \$9,309 remains outstanding.

During the year ended December 31, 2015, the Library entered into four agreements with contractors to construct the Room to Grow in the Library for a total of \$977,650. As of December 31, 2015, \$745,626 remains outstanding.