

**CUMBERLAND COUNTY
LIBRARY SYSTEM**

ANNUAL
FINANCIAL
REPORT

DECEMBER 31, 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Cumberland County Library System
Carlisle, Pennsylvania

We have audited the accompanying financial statements of the governmental activities and each major fund of Cumberland County Library System as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Library System'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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 of 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 financial position of the governmental activities and the major fund of the Cumberland County Library System as of December 31, 2012, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Board of Directors
Cumberland County Library System

Report on Summarized Comparative Information

We have previously audited the Cumberland County Library System's 2011 financial statements, and we have expressed unmodified audit opinions on those audited financial statements in our report dated May 7, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter

As described in Note 1, the Library System has implemented a reporting model to account for deferred inflows, deferred outflows, net position and items previously recorded as assets and liabilities as required by the provisions of the Governmental Accounting Standards Board ("GASB") Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement 65, *Items Previously Recognized as Assets and Liabilities*, as of January 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14, the schedule of funding progress – OPEB on page 30, and budgetary comparison schedule – general fund on page 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library System's basic financial statements. The detailed budgetary comparison schedule – general fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.



Board of Directors
Cumberland County Library System

The detailed budgetary comparison schedule – general fund is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
May 8, 2013

Cumberland County Library System Management's Discussion and Analysis Year Ending December 31, 2012

This Management Discussion and Analysis (MD&A) of the Cumberland County Library System's financial performance provides an overview of the Library System's activities for the fiscal year ending December 31, 2012. The MD&A also includes comparison of current year financial activities to the previous year.

1) Cumberland County Library System Background:

The Cumberland County Library System Headquarters' mission is to plan, develop, coordinate and provide comprehensive public library services for residents through a cooperative network of eight public libraries that includes seven members and one branch facility.

The Library System serves residents of Cumberland County and three municipalities in Franklin County. It provides residents or real property owners of Cumberland County and the Shippensburg Area School District with a library card that may be used to borrow materials from any Cumberland County public library at no charge. The System's member libraries include Amelia S. Givin Free Library, Bosler Memorial Library, Cleve J. Fredricksen Library and its East Pennsboro Branch, John Graham Public Library, Joseph T. Simpson Public Library, New Cumberland Public Library and Shippensburg Public Library.

The Library System Headquarters is an independent agency of Cumberland County government that is designated to provide library services. In accordance with the Pennsylvania Library Code, the County Commissioners appoint a Library System board to administer the agency. The Library System Board has exclusive control of county library tax funds and funds received from Commonwealth Libraries. These funds, and any other funds appropriated for library services, are disbursed under the direction of the Library System board for the establishment or maintenance of library services.

This audit report provides information on the Library System Headquarters' financial activities. Each Cumberland County Library System member library is independently audited. As an independent agency, the Library System Headquarters is not considered a component unit of County government operations. Thus, the Library System Headquarters is audited independently from County government operations as well as member library operations.

Overview of 2012 Activities

In 2012, the Library System Headquarters' significant initiatives included:

1. The Library System Headquarters office moved to new county-owned office space at 1601 Ritner Highway, Suite 100 in August 2012. A 20-year lease began January 2013.
2. Bosler Memorial Library was renovated and expanded from about 18,000 square feet to 53,000 square feet. The Library System Headquarters supported its expansion through technology upgrades.
3. All system wide public Internet computers (58) were replaced in accordance with the system's five-year technology life cycle plans.

Cumberland County Library System Management's Discussion and Analysis Year Ending December 31, 2012

4. A self-service online fee payment system was instituted in February 2012. The system received \$17,037 in online fine payments and distributed \$13,509 in payments to member libraries. Net receipts were the result of an online user fee of \$1.50 per transaction.
5. A new five-year strategic plan was developed and adopted by the Library System Board.
6. The Library System began preparing for major technology shifts in 2013 as it began development of three separate requests for proposals: 1) integrated library system hardware/software; 2) wide area network and Internet services; and 3) additional self-check stations.

In addition to these initiatives, the Library System Headquarters continued to provide services in six areas: 1) Information technology; 2) Technical services; 3) Direct library services; 4) STAR outreach services to older adults; 5) Training services for staff and board members; and 6) Administrative and financial services.

Information Technology

- a. Information Technology Services — To make library and information services widely accessible to Cumberland County residents, the System Headquarters maintained a high-speed countywide library network. In 2012, the network was comprised of about 19 servers, more than 130 computers for the public and about 150 computers for staff, plus associated printers, scanners and other peripherals. (The distribution of this equipment was directly related to member library service levels — ranging from more than 70 computers and associated peripherals at the system's largest library, Fredricksen, to eight at the system's smallest facility, East Pennsboro Branch.)

The computer network provided the public with on-site and remote access to the Library System Headquarters' web site, catalog, reference databases, circulation and services for the homebound. It also helped the System Headquarters and its member library staff work effectively and efficiently by providing Outlook email and calendar services, office productivity software, fund raising software and web site editing software.

In 2012, the Library System's web catalog was searched 2.3 million times, with citizens placing nearly 400,000 requests for items to be delivered to their home library for pick-up. This was a 9% increase from the previous year, averaging about 1,070 customer requests per day.

Technical Services

- b. Technical Services — To provide library users with in-depth access to collections and materials, the System Headquarters provided its member libraries with acquisitions, cataloging, processing and bibliographic database maintenance services for newly purchased or donated library materials. Not only did this centralized service reduce costs for materials and supplies, it also reduced costs for member libraries to employ and train technical services staff.

In 2012, 52,972 items were added to the Library Systems collections. This was about the same as the prior year. Notably, in 2012 the department provided acquisitions, cataloging and processing support for three special collection development grants totaling \$13,000. These grants included:

1. \$5,000 from the Library Services and Technology grant program to support Bosler Memorial Library's consumer health collection.

Cumberland County Library System Management's Discussion and Analysis Year Ending December 31, 2012

2. \$3,000 from the Library Services and Technology grant program to support Bosler Memorial Library's business collection;
3. \$5,000 from the Library Services and Technology grant program to support Fredricksen and East Pennsboro's economic development collections;

Direct Library Services for the Public

- c. Direct Library Services for the Public — To provide library users with in-depth access to collections, materials and services, the Library System provided county residents and taxpayers with a library card, at no charge, to obtain county wide public library services, library material delivery services, reference databases and online services. Service development and improvements were coordinated through member library staff advisory groups that included member library directors, children's librarians as well as staff from computer services, technical services, training services and outreach services.

In 2012, over 2.6 million items were borrowed by library card members. This was about the same as the prior year.

STAR Outreach Services for Older Adults

- d. Services for the Aged — To meet the library service needs of older, homebound adults, the Library System provided Cumberland County homebound seniors with free STAR services (Services to Adult Readers), at no charge. Through a countywide network of 87 volunteers, the Library System provided 171 homebound readers with library materials, including large print, audiobooks, and video recordings. The Library System Headquarters also provided large print book deposit collections to 49 nursing homes, senior centers, assisted and independent living residences in the county.

In 2012, homebound customers increased 8%, with 13 new homebound individuals being added. The number of items borrowed by homebound individuals increased by 7%.

Training Services for Staff and Board Members

- e. Training Services — To meet the ongoing training needs of member library staff, the System Headquarters provided a system-wide training program for staff that emphasized technology skills. As part of its training program, it also maintained an Intranet web site to support staff and board member activities.

Due to limited space at the System Headquarters' temporary office facility, training declined. Sixty staff training sessions were held with 311 seats filled. This was about a 19% fewer staff than the prior year.

Administrative & Financial Services

- f. Administrative & Financial Services — Administrative and financial services fell into three primary areas:
 1. **Library Service Planning, Coordination & Evaluation:** The Library System Board adopted a new five-year strategic plan. The plan's four components include: Customer Services; Running the Business (Process and Evaluation); Sound Financial Management; and Learning, Technology

Cumberland County Library System Management's Discussion and Analysis Year Ending December 31, 2012

and Innovation. Using the strategic plan as a guide, the system develops priorities annually and evaluates progress toward them by objective measures.

2. **Advocacy & Public Relations:** The System Headquarters designed and printed promotional and informational brochures for library users. Key public relations programs in 2012 included *One Book, One Community*, Summer Reading Program, and activities related to PA Forward.
3. **Finance:** In addition to the three collection development grants listed above, the Library System Executive Director worked with the separately incorporated Cumberland County Library System Foundation Board to obtain Educational Income Tax Credit gifts in the amount of \$12,100 from the Pennsylvania Department of Community and Economic Development to support the summer reading program;

The Library System also obtained \$3,000 in private foundation support for its regional *One Book, One Community* program and it applied for and received about \$71,000 in federal Universal Service Fund credits, or E-Rate funds, to offset the costs for wide area network and Internet services.

Finally, through an agreement with the Cumberland County Commissioners, the System Headquarters obtained and helped to subsidize group health insurance (including dental and vision insurance for full-time staff) for staff at member libraries. In 2012, the System Headquarters' health insurance subsidy rates for member library staff were 25% (full-time) and 12.5% (part-time). The Library System provided \$35,902 in partial subsidies for full-time and part-time staff who worked 20 hours or more per week at member libraries – a 23% increase from the prior year.

2) Financial Highlights:

The Library System's revenues were \$9,680 more than budgeted.

The Library System's expenditures were \$44,549 less than budgeted.

In 2012, after reviewing projected income and expenditures over the next five years, the Library System Board received permission from the Commissioners to transfer \$265,000 from the Strategic Development Fund¹ to its operating account in order to balance the budget in 2012. This brought the Strategic Development Fund to a balance of \$2,212,179 as of December 31, 2012. The Library System Board anticipates drawing upon these funds again over the next several years to offset deficits for library services in Cumberland County.

3) Description of the Basic Financial Statements:

The Library System Headquarters' annual audit report consists of a series of statements:

- a. *The Statement of Net Position and Governmental Funds Balance Sheet* — Provides details on the Administrative Office's assets, liabilities and net worth, with a comparison to the prior year.

¹ As a result of the Cumberland County Commissioners' foresight in requesting that growth in the combined expenditure of Cumberland County library tax funds and Commonwealth of Pennsylvania Public Library Subsidy funds be limited to 5% or less per year beginning in 2004, the Library System Board had accumulated \$2,557,467 in its Strategic Development Fund six years later in 2010

**Cumberland County Library System
Management's Discussion and Analysis
Year Ending December 31, 2012**

- b. *Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances* — Provides details about the System's operating activities and changes in fund balance, with a comparison to the prior year.
- c. *Notes to Financial Statements* — Explains:
 - 1. Summary of significant accounting policies;
 - 2. Cash and cash equivalents and investments;
 - 3. Accounts Receivable;
 - 4. Capital assets;
 - 5. Long-term Liabilities
 - 6. Unearned Revenues
 - 7. Other post-employment benefits;
 - 8. Pension plan;
 - 9. Fund Balance;
 - 10. Related party transactions;
 - 11. Risk management; and
 - 12. Commitments and contingencies.
- d. *Other Post - Employment Benefit Plan* — Provides unaudited information of funding progress on the post-employment benefit plan.
- e. *Budgetary Comparison Schedule – General Fund* — Provides information on actual program and general revenues and expenditures as compared to budget.
- f. *Detailed Budgetary Comparison Schedule* — Provides supplementary information that compares detailed budgeted and actual revenues and expenditures.

4) Condensed Comparative Financial Statements:

Statement of Net Position	Amount		Percentage	
	2012	2011	2012	2011
Assets				
Current Assets	\$ 4,106,796	\$ 4,492,060	91%	95%
Noncurrent assets	409,226	261,350	9%	5%
Total Assets	\$ 4,516,022	\$ 4,753,410	100%	100%
Liabilities				
Current liabilities	\$ 141,090	\$ 151,736	77%	80%
Long-term liabilities	43,119	39,092	23%	20%
Total Liabilities	\$ 184,209	\$ 190,828	100%	100%
Net Position				
Net Position				
Net investment in capital assets	\$ 409,226	\$ 261,350	9%	6%
Unrestricted	3,922,587	4,301,232	91%	94%
Total Net Position	\$ 4,331,813	\$ 4,562,582	100%	100%
Total Liabilities and Net Position	\$ 4,516,022	\$ 4,753,410		

**Cumberland County Library System
Management's Discussion and Analysis
Year Ending December 31, 2012**

Statement of Activities	Amount		Percentage	
	2012	2011	2012	2011
Revenues				
Program Revenues				
Federal funds	\$ 11,769	\$ 9,039	0%	0%
State Funds	1,039,331	1,039,448	24%	25%
Other program funds	493	0	0%	0%
Total Program Revenues	\$ 1,051,593	\$ 1,048,487	24%	25%
General Revenues				
County tax revenue	\$ 3,179,937	\$ 3,157,449	74%	74%
Interest	24,174	41,534	1%	1%
Donations	12,848	8,339	0%	0%
Fines (Online Payments)	17,037	0	0%	0%
Miscellaneous	165	6,067	0%	0%
Total General Revenues	\$ 3,234,161	\$ 3,213,389	76%	75%
Total Revenues	\$ 4,285,754	\$ 4,261,876	100%	100%
Program Expenses				
Wages and benefits	\$ 828,520	\$ 814,863	18%	19%
Collection	144,486	133,291	3%	3%
Relocation	525	8,839	0%	0%
Renovation	0	2,499	0%	0%
Other operating	453,793	382,493	10%	9%
Member library distributions	3,089,199	2,953,968	68%	69%
Total expenses	\$ 4,516,523	\$ 4,295,953	100%	100%
Change in Net Position	(\$ 230,769)	(\$ 34,077)	(5)%	(1)%

5) Analysis of Overall Financial Position and Results of Operations for Governmental Activities:

The Library System Headquarters completed its fiscal year in a good financial position.

The Library System Headquarters has a fully funded 90-day Contingency Fund of \$1,136,165. This committed fund balance includes not only the Library System Headquarters' 90-day operational cash needs, but also a cash reserve for 90-days of member library distributions. The Library System Board established this fund to guarantee the continued provision of library services at the same level for at least three months, regardless of whether or not County library tax or State Public Library Subsidy payments have been received.

The Library System Board has a committed Strategic Development Fund balance of \$2,212,179. As requested by the Cumberland County Commissioners in 2004, the Library System Board agreed to establish this fund with any significant net funding increase from county and state sources during the period 2004-2011 for three purposes:

- a. *Fully Fund Library System's 90-day Contingency Fund* — Accomplished in 2005.

**Cumberland County Library System
Management's Discussion and Analysis
Year Ending December 31, 2012**

- b. *Maintain Library Services* — Expenditures from the combined total of Cumberland County Library Tax and Commonwealth of Pennsylvania Public Library Subsidy funds were increased (decreased) modestly by:
- (1) 3% in 2005;
 - (2) 3% in 2006;
 - (3) 5.7% in 2007 (Note: In 2007, expenditures from Cumberland County Library Tax funds were not increased; they remained the same. The 5.9% increase was the result of a 20% increase in Commonwealth of Pennsylvania Public Library Subsidy Funds.)
 - (4) 1.97% in 2008 (restatement, due to audit adjustments); and
 - (5) (1%) in 2009 (Note: In 2010, Commonwealth of Pennsylvania Public Library Subsidy funding decreased 1% or \$14,398. Additionally, Commonwealth of Pennsylvania Statewide Library Card Reimbursement funding decreased 57% or \$163,140. With the consent of Cumberland County Commissioners and the approval of the Cumberland County Library System Board, Cumberland County Library Tax fund expenditures were increased to replace a portion — \$145,301 — of lost state revenue and provide a 3% cost of living increase for services.)
 - (6) (4%) in 2010.
 - (7) (3%) in 2011.
- c. *Establish Strategic Development Fund* — The purpose of the Strategic Development Fund is to yield income for operating purposes, or to strategically reinvest principal to:
- Yield more funding;
 - Produce new cost efficiencies; or
 - Address critical deficiencies in library services.

The Library System Board and County Commissioners also stipulated that while any income from the Strategic Development Fund may be used for operating purposes, any fund principal expenditures would be approved by both the Library System Board and the County Liaison Commissioner (or the Board of Commissioners).

In 2011, the Library System Board began drawing upon these funds to prevent a funding deficit for library services in Cumberland County, thus delaying a need to increase the Cumberland County library tax.

6) Budgetary Analysis:

The Library System Headquarters' revenues were \$9,680 more than budgeted. This was due to:

- \$19,006 less than expected was received in 2012 from the Cumberland County library tax.
- \$15,537 more than expected was received in 2012 for fines.

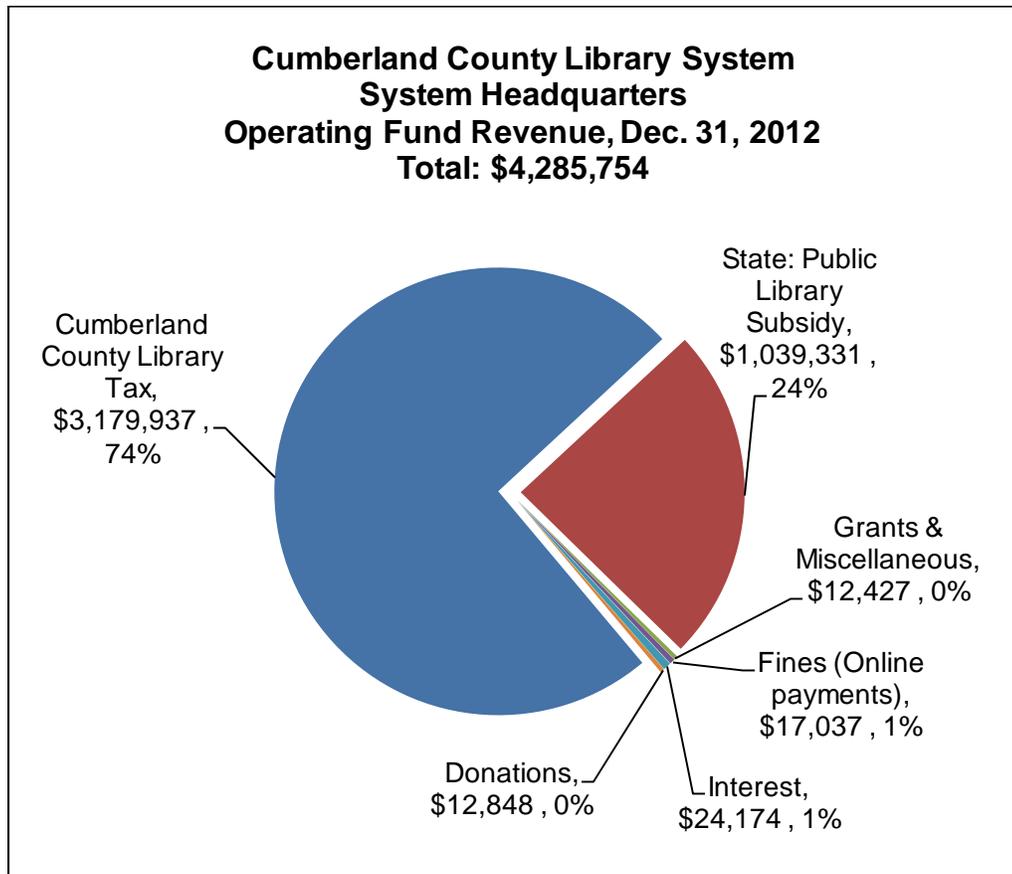
Cumberland County Library System Management's Discussion and Analysis Year Ending December 31, 2012

The Library System Administrative Office's expenditures were \$44,549 under budget. This was largely due to lower than expected costs for:

- Personnel expenditures (\$5,839);
- Library supplies (\$17,618);
- Postage and delivery (\$11,104): Delivery van purchase was delayed by Capital Area Library District;
- Rent (\$30,450); and
- Staff Continuing Education (\$11,991).

Revenues

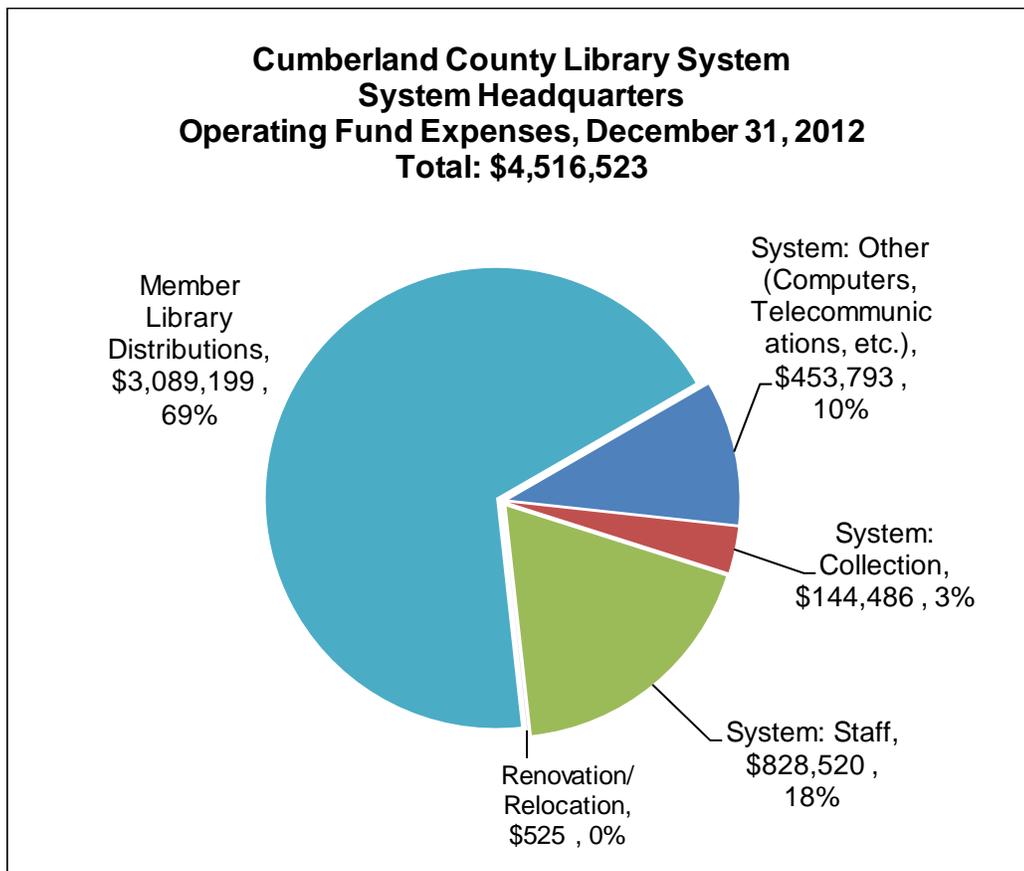
- Overall, the Library System's revenue of \$4,285,754 increased \$23,878 or 1% from 2011. This increase was comprised of:
 - An increase in donations \$4,509;
 - New online fine payment revenue of \$17,037.



Cumberland County Library System Management's Discussion and Analysis Year Ending December 31, 2012

Expenses

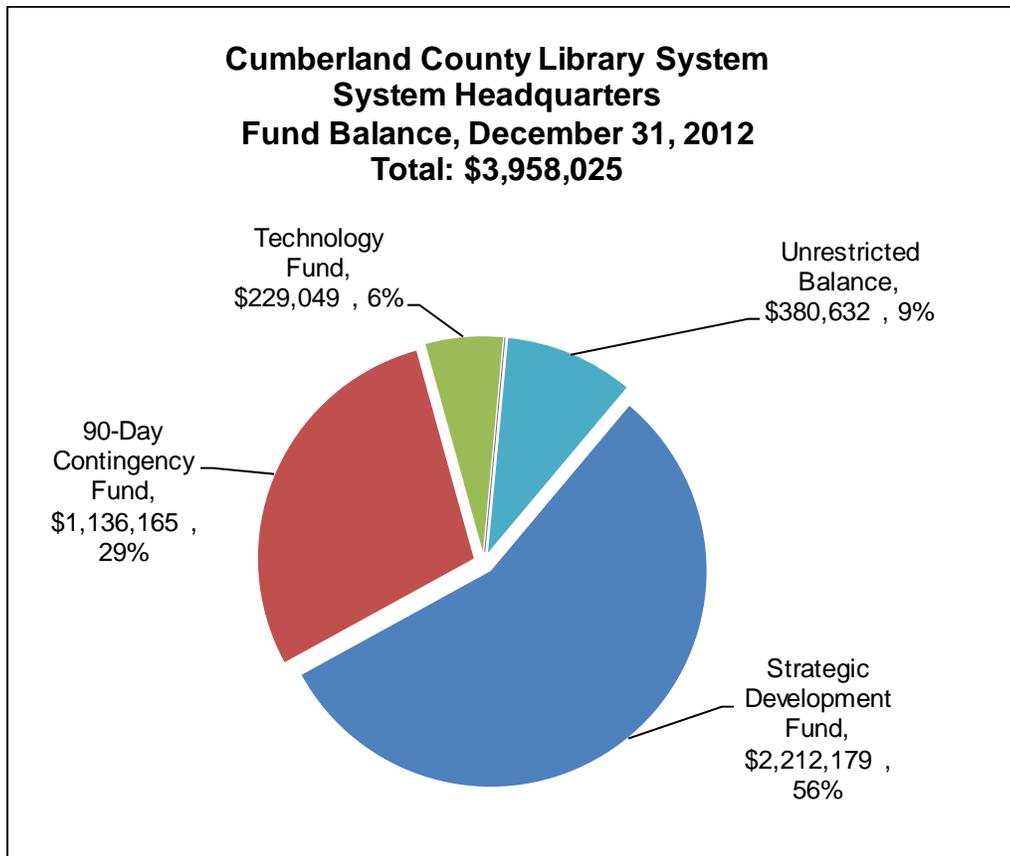
- Overall, the Library System Headquarters' expenses of \$4,516,523 increased 5% or \$220,570 from 2011.
- Member library distributions of \$3,087,199 increased by \$135,231 or 5%. This increase can be attributed to: a \$110,358 increase in library tax distributions; the distribution of \$13,509 in new online library fine payments; a 24% or \$6,708 increase in health insurance subsidies for member library staff; and the distribution of \$3,777 in Beatrice Kelley estate funds. Member library distributions were 68% of operating expenses.
- System Headquarters' staff expenses, \$828,250, increased \$13,657 or 2% from 2011 and comprised 18% of the operating fund expenses.
- System Headquarters' collection expenses, \$144,486, increased \$11,195 or 8% and comprised 3% of the system's operating fund expenses.
- System Headquarters' expenses for other items, \$453,793, increased \$71,300 or 19% and comprised 10% of the system's operating fund expenses.



Cumberland County Library System Management's Discussion and Analysis Year Ending December 31, 2012

Fund Balance

- The Library System Board withdrew \$265,000 from its Strategic Development Fund, using it as operating revenue in 2012. This was 6% of the Library System's 2012 operating revenue. The balance of this fund is now \$2,212,179.
- The Library System Board added \$32,571 to its 90-Day Contingency Fund so that it was fully funded. It now has a balance of \$1,136,165.
- The Library System Board used the remaining \$116,075 balance in its Relocation Fund to pay for costs related to its move to the County's Ritner Highway building. The balance of the Relocation Fund stands at \$0 and the fund has been eliminated.
- The Library System Board added \$68,235 to its Technology Fund. It now stands at \$229,049 and is expected to be used in the future for major upgrades to computer servers and software.
- The Library System carried over a \$380,632 unassigned balance for its 2013 operating budget.



7) Capital Asset and Long-Term Debt Activity:

Total Capital Assets (net of depreciation) were \$409,226 at December 31, 2012. There were no significant long-term debt activities for years ending December 31, 2012 and 2011.

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The changes in capital assets for year ending December 31, 2012 are as follows:

Capital Assets, Dec. 31, 2012 (net of depreciation)	2012	2011	Change
Construction in progress	\$ 228,167	\$ 21,227	\$ 206,940
Exhaustible collection	26,501	28,610	(2,109)
Property and equipment	154,558	211,513	(56,955)
Total Capital Assets	\$ 409,226	\$ 261,350	\$ 147,876

(8) Factors Bearing on the System's Future:

County Library Tax revenues are expected to remain flat in 2013.

State Public Library Subsidy revenues will remain flat in 2013. Current budget proposals for 2014 call for the Public Library Subsidy to remain flat.

In 2012, the Library System Board adopted a new five-year plan for countywide library services for the period 2013-2017. A copy may be found at: <http://cumberlandcountylibraries.org/plan>.

In 2007, the Cumberland County Library System Foundation Board was incorporated as a separate entity from the Library System. It received federal non-profit 501(c)(3) status in 2007. The purpose of the Cumberland County Library System Foundation is to support the Cumberland County, Pennsylvania, Library System and its member libraries. In 2012, the Foundation provided about \$15,540 in general operating support for the Library System and its member libraries. Additional information about its activities may be found at: <http://cclsfoundation.org>.

(9) Questions about the Library System's Financial Management:

To provide additional accountability for the use of public tax dollars, the Library System files a comprehensive annual report with Commonwealth Libraries each year that reports various financial and service statistics. This document is available from Commonwealth Libraries in Harrisburg, or from the Library System Headquarters in Carlisle, PA.

If you have questions about this Management Discussion and Analysis, the Commonwealth Libraries annual report, or need additional information, contact the Cumberland County Library System at 1601 Ritner Highway, Suite 100, Carlisle, PA 17013 or by phone at (717) 240-6175.

CUMBERLAND COUNTY LIBRARY SYSTEM
STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
December 31, 2012
(With Summarized Financial Information for December 31, 2011)

	<u>General Fund</u>	<u>Adjustments</u>	<u>Governmental Activities Statement of Net Position</u>	
			<u>2012</u>	<u>2011</u>
Assets				
Current assets				
Cash and cash equivalents	\$ 3,970,531	\$ 0	\$ 3,970,531	\$ 4,404,434
Accounts receivable	<u>95,070</u>	<u>41,195</u>	<u>136,265</u>	<u>87,626</u>
Total current assets	<u>4,065,601</u>	<u>41,195</u>	<u>4,106,796</u>	<u>4,492,060</u>
Noncurrent assets				
Construction in progress	0	228,167	228,167	21,227
Exhaustible collection (net of accumulated depreciation)	0	26,501	26,501	28,610
Property and equipment (net of accumulated depreciation)	<u>0</u>	<u>154,558</u>	<u>154,558</u>	<u>211,513</u>
Total noncurrent assets	<u>0</u>	<u>409,226</u>	<u>409,226</u>	<u>261,350</u>
Total assets	<u>\$ 4,065,601</u>	<u>\$ 450,421</u>	<u>\$ 4,516,022</u>	<u>\$ 4,753,410</u>
Liabilities				
Current liabilities				
Accounts payable	\$ 9,122	\$ 0	\$ 9,122	\$ 22,248
Accrued payroll and benefits	94,638	0	94,638	92,833
Compensated absences	0	33,514	33,514	34,633
Unearned grant revenues	<u>3,816</u>	<u>0</u>	<u>3,816</u>	<u>2,022</u>
Total current liabilities	<u>107,576</u>	<u>33,514</u>	<u>141,090</u>	<u>151,736</u>
Long-term liabilities				
OPEB liability	0	17,769	17,769	13,521
Compensated absences	<u>0</u>	<u>25,350</u>	<u>25,350</u>	<u>25,571</u>
Total long-term liabilities	<u>0</u>	<u>43,119</u>	<u>43,119</u>	<u>39,092</u>
Total liabilities	<u>107,576</u>	<u>76,633</u>	<u>184,209</u>	<u>190,828</u>
Fund balance/net position				
Committed fund balance				
Strategic development	2,212,179	(2,212,179)	0	0
90-day contingency	1,136,165	(1,136,165)	0	0
Technology	229,049	(229,049)	0	0
Unassigned fund balance	<u>380,632</u>	<u>(380,632)</u>	<u>0</u>	<u>0</u>
Total fund balance	<u>3,958,025</u>	<u>(3,958,025)</u>	<u>0</u>	<u>0</u>
Net position				
Net investment in capital assets	0	409,226	409,226	261,350
Unrestricted	<u>0</u>	<u>3,922,587</u>	<u>3,922,587</u>	<u>4,301,232</u>
Total net position	<u>0</u>	<u>4,331,813</u>	<u>4,331,813</u>	<u>4,562,582</u>
Total liabilities and fund balance/net position	<u>\$ 4,065,601</u>	<u>\$ 450,421</u>	<u>\$ 4,516,022</u>	<u>\$ 4,753,410</u>

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

**CUMBERLAND COUNTY LIBRARY SYSTEM
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2012**

(With Summarized Financial Information for the year ended December 31, 2011)

	<u>General Fund</u>	<u>Adjustments</u>	<u>Governmental Activities Statement of Activities</u>	
			<u>2012</u>	<u>2011</u>
Program expenditures/expenses				
Personnel	\$ 825,612	\$ 2,908	\$ 828,520	\$ 814,863
Collection	150,490	(6,004)	144,486	133,291
Relocation expenditures	525	0	525	8,839
Renovation expenditures	228,737	(228,737)	0	2,499
Other operating expenditures	366,928	86,865	453,793	382,493
Member library distributions				
State public library subsidy	688,218	0	688,218	686,840
Cumberland County tax	2,347,793	0	2,347,793	2,237,435
Beatrice Kelley Estate	3,777	0	3,777	499
Health subsidy distribution	35,902	0	35,902	29,194
Online fines and fees	13,509	0	13,509	0
Total expenditures/expenses	<u>4,661,491</u>	<u>(144,968)</u>	<u>4,516,523</u>	<u>4,295,953</u>
Program revenues				
Capital grants				
Federal LSTA grants	11,769	0	11,769	9,039
Operating grants				
State public library subsidy	1,039,331	0	1,039,331	1,039,448
Other state and county revenue	<u>493</u>	<u>0</u>	<u>493</u>	<u>0</u>
Total program revenues	<u>1,051,593</u>	<u>0</u>	<u>1,051,593</u>	<u>1,048,487</u>
Net program revenue			(\$ 3,464,930)	(\$ 3,247,466)
General revenues				
Cumberland County tax revenue	\$ 3,179,239	\$ 698	\$ 3,179,937	\$ 3,157,449
Interest	24,174	0	24,174	41,534
Donations	12,848	0	12,848	8,339
Fines	17,037	0	17,037	0
Miscellaneous	165	0	165	6,067
Total general revenues	<u>3,233,463</u>	<u>698</u>	<u>3,234,161</u>	<u>3,213,389</u>
Excess of revenues over (under) expenditures/change in net position	(376,435)	145,666	(230,769)	(34,077)
Fund balance/net position - beginning of year	<u>4,334,460</u>	<u>228,122</u>	<u>4,562,582</u>	<u>4,596,659</u>
Fund balance/net position - end of year	<u>\$ 3,958,025</u>	<u>\$ 373,788</u>	<u>\$ 4,331,813</u>	<u>\$ 4,562,582</u>

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

**CUMBERLAND COUNTY LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

Note 1. Summary of Significant Accounting Policies

Nature of Operations

Cumberland County Library System (the “Library System”) was created by the County of Cumberland. The Library System has oversight responsibility and acts as a conduit for the distribution of funds to the public libraries located in the County of Cumberland. The Library System receives funding from federal, state and local governmental entities. All operations of the Library System are included in the reporting entity.

Reporting Entity

The Governmental Accounting Standards Board (GASB) defines the criteria used to determine the composition of the reporting entity. It requires that the reporting entity include (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

The County of Cumberland has evaluated the Library System to determine whether the Library System should be included as a component unit of the County. The Library System is not considered a component unit of the County of Cumberland due to the fact the County is not entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the Library System.

The Cumberland County Library System Foundation was formed in 2007 for the purpose of supporting projects related to the Library System programs and the libraries of the Library System. The Foundation is not considered a component unit of the Library System for financial reporting purposes.

The Library System’s member libraries (Amelia S. Givin Free Library, Bosler Memorial Library, Cleve J. Fredrickson Library, East Pennsboro Branch, John Graham Public Library, Joseph T. Simpson Public Library, New Cumberland Public Library, and Shippensburg Public Library) were evaluated for control by, or dependency on, the Library System to determine whether they should be included in the reporting entity.

Control or dependence is demonstrated by selection of governing authority and financial interdependency. The significant factors for excluding the Library System as a component unit of the County of Cumberland and the seven (7) member libraries as component units of the Library System are the lack of control or dependency in each case.

Basis of Presentation

The Library System accounts for the funds existing under its jurisdiction with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The Library System’s resources are allocated to and accounted for in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled. The funds of the Library System are as follows:

Note 1. Summary of Significant Accounting Policies (Continued)

Governmental Fund

Governmental Funds are those through which all governmental functions of the Library System are financed. The measurement focus is on determination of changes in financial resources, rather than on net income determination. The fund included in this category is:

General Operating Fund - The General Operating Fund is used to account for all financial transactions not accounted for in another fund. Revenues are primarily derived from state and county distributions. This is the only fund of the Library System.

Basis of Accounting

Government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Library System. These statements are presented using the accrual basis of accounting.

Fund financial statements (i.e., the statement of governmental fund balance sheet and the statement of governmental fund revenues, expenditures, and changes in fund balances) are provided for the general fund of the Library System. These statements are presented using the modified accrual basis of accounting. Revenues are recognized when measurable and available and expenses are recognized when they are incurred. For this purpose, the County of Cumberland considers tax revenue to be available if collected within 75 days of the end of the calendar year. The Library System has extended the available period from 60 to 75 days to ensure that the reconciliation payment received from the County is included in the applicable fiscal year.

The governmental fund balance sheet includes an adjustment column that displays the difference between fund balance-total governmental funds and net position-governmental activities as reported in the government-wide statement of net position. These differences are detailed below.

	<u>December 31, 2012</u>
Fund balance, Governmental Funds	\$ 3,958,025
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the general fund. The \$ 1,117,622 represents the entire book value of the Library System's governmental capital assets less \$ 708,396 of accumulated depreciation.	409,226
Taxes receivable are not available soon enough to pay for the current period's expenditures, and therefore are not recorded in the fund financial statements.	41,195
Long-term liabilities are not due and payable in the current period, and therefore are not reported as a liability in the fund financial statements. Long-term liabilities at year end consist of compensated absences and the Other Post Employment Benefits (OPEB) obligation.	(<u>76,633</u>)
Net position, Governmental Activities	<u>\$ 4,331,813</u>

Note 1. Summary of Significant Accounting Policies (Continued)

The governmental fund statement of revenues, expenditures, and changes in fund balance includes an adjustment column that displays the difference between net changes in fund balance - total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. These differences are detailed below.

	Year Ended <u>December 31, 2012</u>
Change in fund balance, Governmental Funds	(\$ 376,435)
Capital outlays are reported in the general fund as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as "depreciation expense". The details of this difference are as follows:	
Capital asset purchases	\$ 252,999
Depreciation expense	<u>(105,123)</u>
	147,876
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.	698
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The change in compensated absences and Net Other Post Employment Benefits (OPEB) obligation for the current year is:	<u>(2,908)</u>
Change in net position, Governmental Activities	<u>(\$ 230,769)</u>

Budgets

Prior to the beginning of each fiscal year, an annual budget is adopted for the General Fund on a modified accrual basis of accounting. Grant budgets are adopted when the grant agreement requires a budget.

Cash and Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments include any certificates of deposit with an original maturity date of greater than three months.

Accounts Receivable

Accounts receivable are recognized when they are available and measurable. County grants are recorded in the year the revenue is designated by the County.

Note 1. Summary of Significant Accounting Policies (Continued)

Capital Assets

These assets result from expenditures in the governmental funds that are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The Library System maintains a capitalization threshold of \$ 1,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value to the asset or materially extend the asset's life are expensed.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

	Governmental Activities
Leasehold Improvements	20 years
Exhaustible Collection	7 years
Property and Equipment	3-7 years

Accounts Payable

Accounts payable are recognized when they are incurred and will be paid from current financial resources. Operating expenses are recorded in the year they are incurred. The Library System's reimbursements are recorded in the year the Library System incurs the expense.

Tax Revenue

The Library System receives monthly payments from Cumberland County representing equal installments of estimated library tax receipts for the current year. An annual reconciliation is performed to equalize County library tax receipts with payments to the Library System. The result of this reconciliation is recorded as either a receivable or payable by the Library System (see related party transaction note). Cumberland County is responsible for the assessment, billing and collection of the library tax.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Compensated Absences

Liability for compensated absences is accounted for in accordance with the provisions of the GASB, which requires entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

Payments for vacation and sick pay are expensed as paid in the governmental fund financial statements.

Liabilities for unused vacation and sick pay are recorded in the government-wide financial statements, and are expensed as incurred.

Note 1. Summary of Significant Accounting Policies (Continued)

Other Postemployment Benefits Other Than Pensions

The GASB establishes standards for the measurement, recognition, and display of other postemployment benefit expenditures and related liabilities, note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. See Note 7 for details on the other postemployment benefits offered by the Library System.

Deferred Outflows and Inflows of Resources

In March 2012, the GASB issued Statement 65, *Items Previously Recognized as Assets and Liabilities*. The objectives of this statement is to enhance the guidance to determine which balances being reported as assets and liabilities should be reported as deferred outflows of resources or deferred inflows of resources.

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Library System does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Library System does not have any items that qualify for reporting in this category.

Net Position –Government-wide Financial Statements

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to enhance the usefulness of reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. This standard establishes a detailed framework detailing how these elements should be reported, which will result in standardizing the presentation of deferred balances and their effects on a government's net position. The financial statements incorporate the changes required by Statement No. 63.

In the government-wide financial statements, net position is classified in the following categories:

Net investment in capital assets – This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balance of bonds, mortgages, notes, accounts payable or other borrowings that are attributable to the acquisition, construction or improvement of those capital assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, a portion of that debt is included in the same net position component as the unspent proceeds. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

Restricted – This component of net position consists of restricted assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources related to those assets. These restrictions could include constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Note 1. Summary of Significant Accounting Policies (Continued)

Unrestricted – This component of net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Net Position Flow Assumption – Sometimes the government will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position, a flow assumption must be made about order in which the resources are considered to be applied. It is the government's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance – Governmental Fund Financial Statements

Governmental funds classify fund balance based on the relative strength of the spending constraints placed on the purpose for which resources can be used. The classifications are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. This classification includes items such as prepaid amounts, inventories, and long term amount of loans and notes receivable. This also includes the corpus (or principal) of endowment funds.

Restricted: This classification includes amounts where the constraints placed on the use of resources are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or mandate payment and includes a legally enforceable requirement on the use of these funds.

Committed: This classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Library System's highest level of decision-making authority, the Library System Board. Once an amount is committed, it cannot be used for any other purpose unless changed by the same type of formal action used to initially constrain the funds.

Assigned: This classification includes spendable amounts that are reported in governmental funds, that are neither restricted nor committed, and amounts in the General Fund that are intended to be used for a specific purpose. The intent of an assigned fund balance should be expressed by either the Library System's Board, or a subordinate high-level body, such as the Executive Director that is authorized to assign amounts to be used for specific purposes. As detailed in its Fund Balance Policy, the Library System has authorized the executive director to make assignments of fund balance. Thus these assignments can be made or changed without formal action by the Board. The assignment of fund balance cannot result in a negative unassigned fund balance.

Unassigned: This classification represents the portion of spendable fund balance that has not been categorized as restricted, committed or assigned. A negative unassigned fund balance may occur in any fund when there is an over expenditure of restricted or committed fund balance. In this case, any assigned fund balance (and unassigned fund balance in the general fund) would be eliminated prior to reporting a negative unassigned fund balance.

Note 1. Summary of Significant Accounting Policies (Continued)

Minimum Fund Balance Policy

The Library System strives to maintain a minimum unassigned fund balance of 14 days of the current average General Fund budgeted expenditures (including those amounts budgeted for member distributions) and a minimum committed fund balance of 90 days in the 90-day Contingency Fund. If the minimum unassigned fund balance of 14 days is not met, this will serve as an authorization “trigger” for the drawdown of the 90-day Contingency Fund.

Fund Balance Flow Assumption

Sometimes the Library System will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. The Library System’s policy is to use unassigned resources first, unless the Board has approved use of restricted, committed, or unassigned fund balances for certain defined expenditures meeting the classification criteria.

Operations and Concentrations

The Library System received approximately 99% of its total program and general revenues from the Commonwealth of Pennsylvania and Cumberland County for the year ended December 31, 2012. Any reductions in funding could have a significant impact on the Library System.

Note 2. Cash and Cash Equivalents and Investments

Custodial credit risk is the risk that in the event of a bank failure, the Library System’s deposits may not be returned to it. The Library System does not have a formal policy regarding custodial credit risk for deposits. However, the Library System requires all deposits in excess of FDIC insurance coverage to be collateralized by the depository institution with approved collateral as provided by law. At December 31, 2012, the Library System had deposit balances in the amount of \$ 3,976,438, of which \$ 357,801 was insured by FDIC and \$ 3,618,637 was collateralized under Act No. 72 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. The Library System is exposed to custodial credit risk because the collateral securities held by the bank’s agents are not in the Library System’s name.

Note 3. Accounts Receivable

Accounts receivable as of December 31, 2012 are as follows:

Cumberland County Library Tax - 2012	\$ 100,425
Member libraries	<u>35,840</u>
Receivables - full accrual basis	136,265
Less revenues not received in 75 days	<u>(41,195)</u>
Receivables - modified accrual basis	<u>\$ 95,070</u>

Note 4. Capital Assets

Capital asset activity for the System consists of the following as of the year ended December 31, 2012:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
<i>Capital assets not being depreciated:</i>				
Construction in progress	\$ 21,227	\$ 206,940	\$ 0	\$ 228,167 (A)
<i>Capital assets being depreciated:</i>				
Exhaustible collection				
Cost				
STAR book collection	39,161	4,997	0	44,158
STAR AV collection	31,085	1,007	0	32,092
	<u>70,246</u>	<u>6,004</u>	<u>0</u>	<u>76,250</u>
Accumulated depreciation				
STAR book collection	(20,431)	(4,774)	0	(25,205)
STAR AV collection	(21,205)	(3,339)	0	(24,544)
	<u>(41,636)</u>	<u>(8,113)</u>	<u>0</u>	<u>(49,749)</u>
Exhaustible collection net of accumulated depreciation	<u>28,610</u>	<u>(2,109)</u>	<u>0</u>	<u>26,501</u>
Property and equipment				
Cost				
Office computers and equipment	167,906	29,065	0	196,971
Intralibrary computer network	436,975	10,990	(1,018)	446,947
Intralibrary computer software	169,287	0	0	169,287
	<u>774,168</u>	<u>40,055</u>	<u>(1,018)</u>	<u>813,205</u>
Accumulated depreciation				
Office computers and equipment	(80,688)	(26,412)	0	(107,100)
Intralibrary computer network	(325,372)	(63,633)	1,018	(387,987)
Intralibrary computer software	(156,595)	(6,965)	0	(163,560)
	<u>(562,655)</u>	<u>(97,010)</u>	<u>1,018</u>	<u>(658,647)</u>
Property and equipment net of accumulated depreciation	<u>211,513</u>	<u>(56,955)</u>	<u>0</u>	<u>154,558</u>
Total capital assets being depreciated, net	<u>\$ 261,350</u>	<u>\$ 147,876</u>	<u>\$ 0</u>	<u>\$ 409,226</u>

(A) See Note 5

Note 5. Long-term Liabilities

The changes in long-term liabilities during the year ended December 31, 2012 were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current</u>	<u>Long-Term</u>
Governmental activities						
Compensated Absences	60,204	88,307	(89,647)	58,864	33,514	25,350
Total	<u>\$ 60,204</u>	<u>\$ 88,307</u>	<u>(\$ 89,647)</u>	<u>\$ 58,864</u>	<u>\$ 33,514</u>	<u>\$ 25,350</u>

All Library System employees are employed by the County of Cumberland. The County pays all payroll and related items, which the Library System reimburses the County for the Library System's portion each month. In accordance with County of Cumberland policies, the Library System's full-time employees may accumulate unused vacation time, up to a maximum of 225 hours, payable upon termination. Until June 1997, full-time Library System employees could accumulate unused sick days up to a maximum of 260 days. Upon termination, employees were paid one-half of accumulated sick days not to exceed 45 days. During 1997, the County adopted a new sick leave policy. Accumulated balances as of June 30, 1997 were carried forward; however, any sick days earned after that date do not accumulate and unused days are paid at half the daily pay rate to employees near the end of the year. Employees may accumulate a maximum of 32 hours of compensatory time. All hours exceeding the 32 hour limit are paid at the appropriate rate. The executive director, technical services coordinator, automation services coordinator, training services coordinator, and technical services librarian are exempt from compensatory time under the Fair Labor Standards Act. The County renders a monthly bill for wages, benefits and related expenses.

Subsequent Event

On April 15, 2013, the Library System entered into an agreement with Cumberland County. During 2012, Cumberland County agreed to renovate a building that would be occupied by both the County and the Library System. The Library System paid for a portion of the costs to renovate the building totaling \$ 228,167; however, there were additional costs incurred by Cumberland County that will be paid back over the next twenty years, starting on January 1, 2013, with annual payments of \$ 51,770. The agreement does state that either party may terminate the agreement at any time, with or without cause, after year 3, upon providing 24 months prior written notice to the other party.

Note 6. Unearned Revenues

Governmental funds present unearned revenue in connection with receivables for revenues that are not considered to be available to pay liabilities of the current period. Governmental funds also defer revenue recognition for resources that have been received, but not yet earned. Unearned revenues in the General Fund of \$ 3,816 consist of federal grant funds received in 2012 but not yet spent.

Note 7. Other Postemployment Benefits*Plan Description*

The Library System is part of the Cumberland County Postemployment Benefit Plan. It is a single-employer plan that covers health insurance benefits where County retirees and their beneficiaries may continue to participate in the County's health coverage. The County's health coverage is provided through an insurance company.

Note 7. Other Postemployment Benefits (Continued)

To be eligible to receive benefits of the health insurance plan, a retiree must be receiving annuity payments from the Cumberland County Retirement Plan. The County Commissioners established the Plan and may amend the Plan at any time. The County/Library System is under no statutory or contractual obligation to provide this post-employment benefit.

While retirees opting to participate are asked to pay 100% of their premium, that amount is less than the Library System’s actual cost to provide health care coverage to retirees. The premium amount retirees pay is a blended rate for covering both active and retired Plan members. The fact that the blended rate that retirees pay is less than the actual cost of covering the retired members and their beneficiaries results in what is known as an “implicit rate subsidy” by the Library System, which gives rise to the benefit.

Funding Policy

The Library System funds Plan liabilities on a “pay-as-you-go” basis, and has not established an OPEB trust fund to accumulate assets to fund Plan obligations. The Library System has no statutory or contractual obligation to fund the Plan and only does so at the Library System’s discretion. The Library System funds the implicit rate subsidy through the payment of health insurance premiums on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

The Library System’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Library System’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Library System’s net OPEB obligation to the plan:

Annual required contribution (ARC)	\$ 4,850
Estimated interest on net OPEB obligation	541
Estimated adjustment to ARC	(782)
Annual OPEB Cost	4,609
Employer contributions - estimated	(361)
Increase in net OPEB obligation	4,248
Net OPEB obligation - beginning of the year	<u>13,521</u>
Net OPEB obligation - end of the year	<u>\$ 17,769</u>

The Library System’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three years was as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 4,609	7.8%	\$ 17,769
2011	\$ 4,690	3.7%	\$ 13,521
2010	\$ 6,896	41.1%	\$ 9,005

Note 7. Other Postemployment Benefits (Continued)

Funding Status of Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the plan had the following funded status and progress:

Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
01/01/12	\$ 0	\$ 33,471	\$ 33,471	0%	\$ 630,463	5.3%

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to the continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information in the future, about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Among the actuarial methods and assumptions used in the actuarial valuation are: (a) the projected unit credit cost method, (b) amortization of the unfunded actuarial accrued liability over 30 years, (c) a 4 percent discount rate based on an assumed 3 percent general inflation rate (this is assumed to be the long-term expected rate of return on non-Plan assets), (d) a health care inflation rate that begins at 9 percent trending to 5 percent by 2013, (e) the amortization method for the most recent actuarial valuation is the level dollar method with an open period.

Note 8. Pension Plan

All full time employees of the Library System are required to participate in the County of Cumberland Retirement Plan, a single employer defined benefit pension plan covered by the County Pension Law, Act 96 of 1971, of the General Assembly of the Commonwealth of Pennsylvania, as amended (The Act). The Library System contributed \$ 72,394 to the County of Cumberland Retirement Plan for its employees for the year ended December 31, 2012. In addition, Library System employees working more than 1,000 hours per year are required to defer a minimum of 5% of their salary to fund the pension plan.

The plan is included in the County of Cumberland financial statements and details of the Plan and six year historical trend information are maintained by the County.

Note 9. Fund Balance

The Library System has the following committed fund balances which represent internal commitments for specific purposes on the use of a portion of fund balance.

Strategic Development

The purpose is to yield income for the Library System's operating purposes or to strategically reinvest principal to 1) yield more funding, 2) produce new cost efficiencies, or 3) address critical deficiencies in library services. It is anticipated that these funds will be used to offset projected operating fund deficiencies. The amount is based upon five-year financial projections which are used to determine a "cost to maintain services" increase each year. This increase (from both state aid and county library tax sources) is based upon factors such as Pennsylvania Library Code requirements; federal cost of living indices, book and periodical cost indices, etc. However, in accordance with its agreement with the County Commissioners, any increase in state and county support is limited to a maximum of 5% per year.

If the Library System wants to go beyond the 5% cap, the need for the higher amount must be reviewed with the County Commissioners. Any income derived from the Strategic Development Fund may be budgeted for library system operating purposes as approved by the Library System Board.

90-Day Contingency

The purpose is to have funds available to replace unexpected shortfalls in budgeted income or to meet unexpected, yet necessary, expenditures. In the past, funding received from outside sources has been delayed, which results in the unassigned fund balance to fall below the minimum unassigned fund balance. The Library System approves the use of contingency funds to replace other funding that may be delayed to ensure that the administrative office and member libraries have sufficient funding to operate. Once the regular funding is received, the 90-Day Contingency Fund shall be replenished. The 90-Day Contingency is based on 90 days of average General Fund budgeted expenditures, including those amounts budgeted for member library distributions. Any income derived from the 90-Day Contingency may be budgeted for library system operating purposes as approved by the Library System Board.

Technology

The purpose is for future upgrade of the Library System's integrated server and software. The Library System maintains a long range technology replacement plan that is based on a five year life cycle for most computer equipment. Amounts placed in Technology are budgeted annually by the Library System Board and are based on the long term plans. Any income derived from the Technology may be budgeted for library system operating purposes as approved by the Library System Board.

Note 10. Related Party Transactions

While the Library System is not a component unit of the County of Cumberland, the County does provide payroll and benefits services on behalf of Library System staff, which totaled \$ 825,612 for 2012. There is \$ 93,026 due to the County for payroll related expenditures at December 31, 2012.

Note 11. Risk Management

The Library System 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. The County of Cumberland maintains commercial insurance coverage, including directors' and officers' liability, covering each of those risks of loss on behalf of the Library System. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Library System. Settled claims have not exceeded this commercial coverage in any of the past 3 years.

Note 12. Commitments and Contingencies

During the normal course of performing its duties to the general public which it serves, the Library System is subject to potential lawsuits and complaints. At December 31, 2012, there were no claims that management feels would have a material effect on the Library System's financial position.

The Library System participates in numerous state and federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and review by the grantor agencies; therefore, any findings or adjustments by the grantor agencies could have an effect on the Library System.

REQUIRED SUPPLEMENTARY INFORMATION

**CUMBERLAND COUNTY LIBRARY SYSTEM
OPEB (Other Postemployment Benefit Plan)**

SCHEDULE OF FUNDING PROGRESS (UNAUDITED)

Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / (c))
01/01/12	\$ 0	\$ 33,471	\$ 33,471	0.00%	\$ 630,463	5.3%
01/01/11	\$ 0	\$ 24,638	\$ 24,638	0.00%	\$ 622,062	4.0%
01/01/10	\$ 0	\$ 35,983	\$ 35,983	0.00%	\$ 798,447	4.5%

**CUMBERLAND COUNTY LIBRARY SYSTEM
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (UNAUDITED)
YEAR ENDED DECEMBER 31, 2012**

	Original/Final Budget	General Fund Actual	Variance with Final Budget Positive (Negative)
Program revenues			
Capital grants			
Federal LSTA grants	\$ 5,000	\$ 11,769	\$ 6,769
Operating grants			
State public library subsidy	1,039,331	1,039,331	0
Other state and county revenue	<u>0</u>	<u>493</u>	<u>493</u>
Total program revenues	<u>1,044,331</u>	<u>1,051,593</u>	<u>7,262</u>
General revenues			
Cumberland County tax revenue	3,198,245	3,179,239	(19,006)
Interest	27,700	24,174	(3,526)
Donations	3,500	12,848	9,348
Fines	1,500	17,037	15,537
Miscellaneous	<u>100</u>	<u>165</u>	<u>65</u>
Total general revenues	<u>3,231,045</u>	<u>3,233,463</u>	<u>2,418</u>
Total revenue	<u>4,275,376</u>	<u>4,285,056</u>	<u>9,680</u>
Program expenditures			
Personnel	831,451	825,612	5,839
Collection	169,396	150,490	18,906
Relocation expenditures	450	525	(75)
Renovation expenditures	160,932	228,737	(67,805)
Other operating expenditures	467,924	366,928	100,996
Member library distributions			
State public library subsidy	688,218	688,218	0
Cumberland county tax	2,347,793	2,347,793	0
Beatrice Kelly Estate	0	3,777	(3,777)
Health subsidy distribution	39,876	35,902	3,974
Online fines and fees	<u>0</u>	<u>13,509</u>	<u>(13,509)</u>
Total expenditures	<u>4,706,040</u>	<u>4,661,491</u>	<u>44,549</u>
Change in fund balance	(430,664)	(376,435)	54,229
Fund balance - beginning of year	<u>3,947,482</u>	<u>4,334,460</u>	<u>386,978</u>
Fund balance - end of year	<u>\$ 3,516,818</u>	<u>\$ 3,958,025</u>	<u>\$ 441,207</u>

OTHER SUPPLEMENTARY INFORMATION

CUMBERLAND COUNTY LIBRARY SYSTEM
DETAILED BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED DECEMBER 31, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Program revenues			
Federal LSTA grants	\$ 5,000	\$ 11,769	\$ 6,769
State public library subsidy	1,039,331	1,039,331	0
Other state and county revenue	<u>0</u>	<u>493</u>	<u>493</u>
Total program revenues	<u>1,044,331</u>	<u>1,051,593</u>	<u>7,262</u>
General revenues			
Cumberland county tax revenue	3,198,245	3,179,239 (	19,006)
Interest	27,700	24,174 (	3,526)
Donations	3,500	12,848	9,348
Fines	1,500	17,037	15,537
Miscellaneous	<u>100</u>	<u>165</u>	<u>65</u>
Total general revenues	<u>3,231,045</u>	<u>3,233,463</u>	<u>2,418</u>
Total revenues	<u>4,275,376</u>	<u>4,285,056</u>	<u>9,680</u>
Expenditures			
Personnel			
Wages	629,269	627,548	1,721
Benefits			
FICA-employer	48,139	47,234	905
Unemployment-employer	2,560	2,704 (	144)
Worker's compensation	824	825 (	1)
Health insurance	76,372	69,660	6,712
Life insurance	520	620 (	100)
Disability insurance	4,547	4,627 (	80)
Retirement	<u>69,220</u>	<u>72,394 (</u>	<u>3,174)</u>
Total personnel expenditures	<u>831,451</u>	<u>825,612</u>	<u>5,839</u>
Collection			
Books	13,145	6,339	6,806
Periodicals and newspapers	850	875 (	25)
Audio visual	2,000	2,372 (	372)
Collection development grants	0	12,362 (	12,362)
Electronic information and internet services	103,401	96,160	7,241
Library supplies	<u>50,000</u>	<u>32,382</u>	<u>17,618</u>
Total collection expenditures	<u>\$ 169,396</u>	<u>\$ 150,490</u>	<u>\$ 18,906</u>

CUMBERLAND COUNTY LIBRARY SYSTEM
DETAILED BUDGETARY COMPARISON SCHEDULE (Continued)
YEAR ENDED DECEMBER 31, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures (Cont'd.)			
Relocation expenditures	\$ 450	\$ 525	(\$ 75)
Renovation expenditures	160,932	228,737	(67,805)
Other operating expenditures			
Office			
Office supplies	3,000	2,289	711
Postage and delivery	29,130	18,026	11,104
Printing	5,000	4,203	797
Photocopier supplies & service	12,500	10,436	2,064
Computer equipment			
Hardware	43,269	31,046	12,223
Software	5,836	935	4,901
Office hardware and software maintenance	250	0	250
Automation hardware maintenance	34,560	27,159	7,401
Automation software maintenance	69,578	67,290	2,288
Occupancy			
Rent	30,450	0	30,450
Building maintenance	20,260	17,735	2,525
Utilities	19,919	10,425	9,494
Insurance	1,055	1,016	39
Telecommunications			
General office	4,000	3,658	342
Automation system	68,031	74,922	(6,891)
Public relations	7,800	5,233	2,567
Programming			
Summer reading	3,500	3,000	500
Trustee	500	627	(127)
Staff	4,500	2,763	1,737
Movie licensing USA	2,800	2,783	17
One book, One community	200	0	200
Contracted services			
Database	9,915	6,812	3,103
Consultant	7,500	5,035	2,465
Audit and Accounting	15,300	16,434	(1,134)
Other miscellaneous operating			
Dues and memberships	5,964	5,222	742
OCLC - Bibliographic Services	26,316	26,487	(171)
Cost of raising money and miscellaneous	16,851	16,111	740
Staff travel and training			
Travel	4,440	3,772	668
Continuing education	15,500	3,509	11,991
Total other operating expenditures	<u>\$ 467,924</u>	<u>\$ 366,928</u>	<u>\$ 100,996</u>

CUMBERLAND COUNTY LIBRARY SYSTEM
DETAILED BUDGETARY COMPARISON SCHEDULE (Continued)
YEAR ENDED DECEMBER 31, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures (Cont'd.)			
Member library distributions			
State public library subsidy			
Amelia S. Givin	\$ 45,455	\$ 45,455	\$ 0
Bosler	142,084	142,084	0
Cleve J. Fredrickson	205,323	205,323	0
John Graham	27,838	27,838	0
Joseph T. Simpson	137,122	137,122	0
New Cumberland	67,793	67,793	0
Shippensburg	<u>62,603</u>	<u>62,603</u>	<u>0</u>
Total state aid	<u>688,218</u>	<u>688,218</u>	<u>0</u>
Cumberland county tax			
Amelia S. Givin	155,062	155,062	0
Bosler	484,705	484,705	0
Cleve J. Fredrickson	700,441	700,441	0
John Graham	94,966	94,966	0
Joseph T. Simpson	467,784	467,784	0
New Cumberland	231,270	231,270	0
Shippensburg	<u>213,565</u>	<u>213,565</u>	<u>0</u>
Total Cumberland county tax	<u>2,347,793</u>	<u>2,347,793</u>	<u>0</u>
Beatrice Kelley estate			
Amelia S. Givin	0	224 (	224)
Bosler	0	702 (	702)
Cleve J. Fredrickson	0	1,392 (	1,392)
John Graham	0	137 (	137)
Joseph T. Simpson	0	678 (	678)
New Cumberland	0	335 (	335)
Shippensburg	<u>0</u>	<u>309 (</u>	<u>309)</u>
Total Beatrice Kelley estate	<u>0</u>	<u>3,777 (</u>	<u>3,777)</u>
Health subsidy distribution			
Amelia S. Givin	2,260	1,462	798
Bosler	13,160	10,978	2,182
Cleve J. Fredrickson	7,190	8,763 (	1,573)
John Graham	2,466	2,312	154
Joseph T. Simpson	5,100	4,386	714
New Cumberland	5,500	4,386	1,114
Shippensburg	<u>4,200</u>	<u>3,615</u>	<u>585</u>
Total health subsidy distribution	<u>39,876</u>	<u>35,902</u>	<u>3,974</u>

**CUMBERLAND COUNTY LIBRARY SYSTEM
 DETAILED BUDGETARY COMPARISON SCHEDULE (Continued)
 YEAR ENDED DECEMBER 31, 2012**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures (Cont'd.)			
Member library distributions			
Online fines and fees			
Amelia S. Givin	\$ 0	\$ 784	(\$ 784)
Bosler	0	1,556	(1,556)
Cleve J. Fredrickson	0	6,287	(6,287)
John Graham	0	215	(215)
Joseph T. Simpson	0	2,351	(2,351)
New Cumberland	0	1,405	(1,405)
Shippensburg	<u>0</u>	<u>911</u>	<u>(911)</u>
Total online fines and fees	<u>0</u>	<u>13,509</u>	<u>(13,509)</u>
Total expenditures	<u>\$ 4,706,040</u>	<u>\$ 4,661,491</u>	<u>\$ 44,549</u>