

**CUMBERLAND COUNTY
LIBRARY SYSTEM**

ANNUAL
FINANCIAL
REPORT

DECEMBER 31, 2011

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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, 2011, which collectively comprise the Library System's basic financial statements as listed on the table of contents. These financial statements are the responsibility of the Library System's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Library System's December 31, 2010 financial statements and, in our opinion dated May 4, 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities and the major fund.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Library System has implemented a new fund balance reporting model as required by the provisions of the Governmental Accounting Standards Board ("GASB") Statement 54, *Fund Balance Reporting and Governmental Fund Definitions*, as of January 1, 2011.

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 3 through 13, the schedule of funding progress – OPEB on page 28, and budgetary comparison schedule – general fund on page 29 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.



Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

Board of Directors
Cumberland County Library System

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library System's financial statements as a whole. The detailed budgetary comparison schedule – general fund is presented for purposes of additional analysis and is not a required part of the financial statements. 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
May 7, 2012

Cumberland County Library System Management's Discussion and Analysis Year Ending December 31, 2011

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, 2011. 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 Administrative Office's 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 free library card that may be used to borrow materials from any Cumberland County public library. 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's Administrative Office is a department within Cumberland County government and reports to the Library System Board and the Cumberland County Commissioners' office.

This audit report provides information on the Library System's Administrative Office financial activities. Each Cumberland County Library System member library is independently audited. While the Library System's Administrative Office is a department of County government, it is not considered a component unit of County government operations. Thus, the Library System's Administrative Office is audited independently from County government operations as well as member library operations.

In 2011, the Administrative Office provided services in six major 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 Administrative Office maintained a high-speed countywide library network. In 2011, the network was comprised of about 20 servers, more than 120 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 65 computers and associated peripherals at the system's largest library, Fredricksen, to seven 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's web site, catalog, reference databases, circulation and services for the homebound. It also helped the Administrative Office and its member library staff work effectively and efficiently by providing Outlook email and calendar services, office productivity software, fund raising software, web site editing software as well as other miscellaneous services.

Cumberland County Library System Management's Discussion and Analysis Year Ending December 31, 2011

In 2011, the Library System's web catalog was searched nearly 3 million times, with citizens placing nearly 500,000 requests for items to be delivered to their home library for pick-up. This was a 19% increase from the previous year, averaging about 1,295 customer requests per day.

Technical Services

- b. Technical Services — To provide library users with in-depth access to collections and materials, the Administrative Office 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.

Notably, in 2011 the department provided acquisitions, cataloging and processing support for five special collection development grants totaling \$75,000. These grants included:

1. \$40,000 from the Pennsylvania Department of Community and Economic Development for adult print materials (especially non-fiction) (Funds received in 2010; half of the materials were purchased and processed in 2011);
2. \$10,000 from the Library Services and Technology grant program to support Bosler Memorial Library's technology collection;
3. \$10,000 from the Library Services and Technology grant program to support Simpson Public Library's business collection;
4. \$15,000 from the Library Services and Technology grant program to support Fredricksen and East Pennsboro's health collections;
5. \$5,000 from the Library Services and Technology grant program to support Bosler Memorial Library's consumer health collection.

The department also secured a system-wide contract for magazine subscriptions that will permit member libraries to receive an 18% discount on most periodical subscriptions.

In 2011, 52,820 items were added to the Library Systems collections. This was about 6% more items than the prior year.

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 free library card 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 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 2011, over 2.6 million items were borrowed by library card members. This was about the same as the prior year.

Cumberland County Library System Management's Discussion and Analysis Year Ending December 31, 2011

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). Through a countywide network of 88 volunteers, the Library System provided 158 homebound readers with books, including large print, audiobooks, and video recordings. The Library System Administrative Office also provided large print book deposit collections to 48 nursing homes, senior centers, assisted and independent living residences in the county.

In 2011, homebound customers increased significantly, with 30 new homebound individuals being added – a 19% increase. Due to a smaller number of materials being supplied as deposit collections to facilities, the overall number of materials borrowed declined by 10%. However, 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 Administrative Office provided a system-wide training program for staff that emphasized technology skills. As part of its training program, the Administrative Office also maintained an Intranet web site.

This department held 79 staff training sessions with 382 seats filled. As expected, this was about a third less activity than the prior year. (During the prior year, system-wide staff members were re-trained to accommodate upgrades to Windows 7 operating system and Office 2007 productivity software.

Administrative & Financial Services

- f. Administrative & Financial Services — Administrative and financial services fall into three primary areas:
1. **Library Service Planning, Coordination & Evaluation:** Following Bosler Memorial Library's decision to obtain lower construction costs by starting construction on its facility in late 2011, the Library System Administrative Office learned it needed to vacate its leased space at 19 S. West Street to move to temporary quarters. The Library System was able to find space on short notice and it obtained favorable rental terms for office space from Dickinson College at 1250 Ritner Highway. The Administrative Office moved in November 2011. The Library System also began researching and discussing future trends in library services. This included several meetings in August among member library directors and key management staff to discuss trends as well as a visit to an innovative library system in Maryland. This research will be useful background information for the system's upcoming strategic planning process.
 2. **Advocacy & Public Relations:** The Administrative Office coordinated advocacy and public relations with its member libraries by sponsoring an annual legislative breakfast for county, state and federal officials. The Administrative Office also designed and printed promotional and informational brochures for library users. Key public relations programs in 2011 included *One Book, One Community* and the annual Summer Reading Program for children. Finally, the Library System's Executive Director worked with the Pennsylvania Library Association to help develop a statewide advocacy program: PA Forward | Pennsylvania Libraries, which will be launched in early 2012.

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3. **Finance:** In addition to the five collection development grants listed above, the Library System *Executive Director* worked with the separately incorporated Cumberland County Library System Foundation Board to obtain special Educational Income Tax Credits in the amount of \$12,000 (a 380% increase from 2010) 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 \$52,000 in federal Universal Service Fund credits, or E-Rate funds.

In addition, through an agreement with the Cumberland County Commissioners, the Administrative Office obtained and helped to subsidize group health insurance (including dental and vision insurance for full-time staff) for staff at member libraries. The Administrative Office provided \$29,194 in partial subsidies for full-time and part-time staff who worked 20 hours or more per week at member libraries. In 2011, the Administrative Office's health insurance subsidy rates for member library staff were 25% (full-time) and 12.5% (part-time).

2) Financial Highlights:

The Library System's revenues were \$59,762 less than budgeted.

The Library System's expenditures were \$128,768 under budget.

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, the Library System Board had accumulated \$2,557,467 in its Strategic Development Fund over the past seven years.

In 2011, after reviewing projected income and expenditures over the next five years, the Library System Board received permission from the Commissioners to transfer \$80,288 from the Strategic Development Fund to its operating account in order to balance the budget in 2011. This brought the Strategic Development Fund to a balance of \$2,477,179 as of December 31, 2011. The Library System Board anticipates drawing upon these funds again over the next several years to prevent deficits for library services in Cumberland County.

3) Description of the Basic Financial Statements:

The Library System's Administrative Office annual audit report consists of a series of statements:

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

**Cumberland County Library System
Management's Discussion and Analysis
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c. *Notes to Financial Statements* — Explains:

- | | |
|--|------------------------------------|
| 1. Summary of significant accounting policies; | 8. Pension plan; |
| 2. Cash and cash equivalents and investments; | 9. Fund Balance; |
| 3. Accounts Receivable; | 10. Related party transactions; |
| 4. Capital assets; | 11. Office lease; |
| 5. Compensated absences; | 12. Risk management; |
| 6. Deferred revenues; | 13. Commitments and contingencies; |
| 7. Other post-employment benefits; | 14. Restatement |

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 Assets	Amount		Percentage	
	2011	2010	2011	2010
Assets				
Current Assets	\$ 4,492,060	\$ 5,048,156	95%	95%
Noncurrent assets	261,350	264,349	5%	5%
Total Assets	\$ 4,753,410	\$ 5,312,505	100%	100%
Liabilities				
Current liabilities	\$ 151,736	\$ 683,163	80%	95%
Long-term liabilities	39,092	32,683	20%	5%
Total Liabilities	\$ 190,828	\$ 715,846	100%	100%
Net Assets				
Net Assets				
Invested in capital assets	\$ 261,350	\$ 264,639	6%	6%
Unrestricted	4,301,232	4,332,310	94 %	95%
Total Net Assets	\$ 4,562,582	\$ 5,312,509	100%	100%
Total Liabilities and Net Assets	\$ 4,753,410	\$ 5,312,505		

**Cumberland County Library System
Management's Discussion and Analysis
Year Ending December 31, 2011**

Statement of Activities	Amount		Percentage	
	2011	2010	2011	2010
Revenues				
Program Revenues				
Federal funds	\$ 9,039	\$ 47,418	0%	1%
State Funds	1,039,448	1,165,452	25%	26%
Other program funds	0	40,000	0%	1%
Total Program Revenues	\$ 1,048,487	\$ 1,252,870	25%	28%
General Revenues				
County tax revenue	\$ 3,157,449	\$ 3,101,974	74%	70%
Interest	41,534	96,787	1%	2%
Donations	8,339	9,800	0%	0%
Miscellaneous	6,067	1,081	0%	0%
Total General Revenues	\$ 3,213,389	\$ 3,209,642	75%	72%
Total Revenues	\$ 4,261,876	\$ 4,462,512	100%	100%
Program Expenditures				
Wages and benefits	\$ 814,863	\$ 822,171	19%	17%
Collection	133,291	204,410	3%	4%
Relocation	8,839	0	0%	0%
Renovation	2,499	0	0%	0%
Other operating	382,493	415,778	9%	9%
Member library distributions	2,953,968	3,142,805	69%	69%
Total expenditures	\$ 4,295,953	\$ 4,585,164	100%	100%
Change in Net Assets	\$ (34,077)	\$ (122,652)	(1)%	(3)%

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

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

The Library System Administrative Office has a fully funded 90-day Contingency Fund of \$1,103,594. This committed fund balance includes not only the Library System Administrative Office's 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 committed a Strategic Development Fund of \$2,477,179. As requested by the Cumberland County Commissioners in 2005, the Library System Board agreed to establish this fund with any significant net funding increase from county and state sources during the period 2005-2011 for three purposes:

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

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Management's Discussion and Analysis
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- (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 has started to draw 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's Administrative Office revenues were \$59,762 less than budgeted. This was due to:

- \$20,000 less than expected was received in 2011 from Department of Community and Economic Development grants. (The funds were actually received very late in 2010.)
- \$43,367 less than expected in County Library Tax funds.

The Library System Administrative Office's expenditures were \$128,768 under budget. This was largely due to lower than expected costs for:

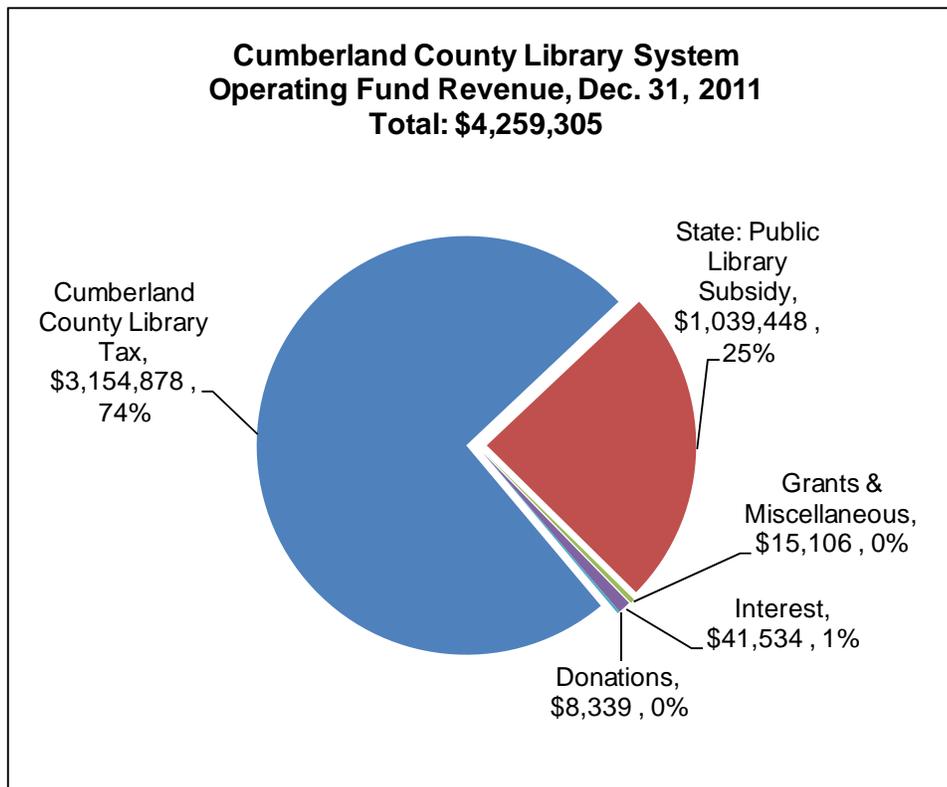
- Personnel expenditures (\$22,934): Lower costs due to a senior staff retirement, internal promotion and hiring of a new librarian.
- Collection expenditures (\$59,022): Lower costs due to deferred 2012 billing for some electronic databases and delays in spending LSTA grant funds for collection development.
- Library supplies (\$21,006): Lower costs due to reduced new material expenditures by member libraries and vendor credits from prior year orders.

Cumberland County Library System Management's Discussion and Analysis Year Ending December 31, 2011

- Postage and delivery (\$12,403): Lower costs due to the Capital Area Library District delaying the purchase of a replacement delivery van
- Computer Hardware (\$30,723): Lower costs primarily due to reduced costs for replacement of 45 public Internet computers.
- Computer Hardware Maintenance (\$18,844): Lower costs for network consulting.
- Telecommunications (\$18,507): Lower costs for phone and wide area network costs.
- OCLC (\$9,136): Lower than expected costs due to reduced new material expenditures by member libraries.

Revenues

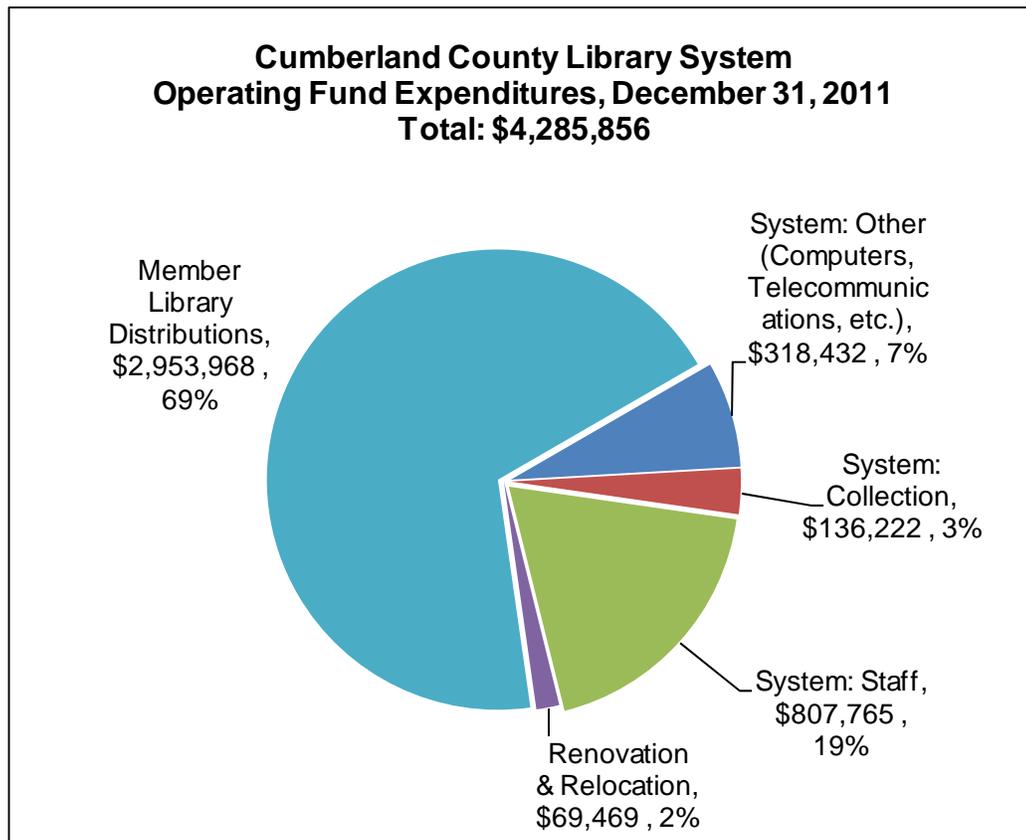
- Overall, the Library System's revenue of \$4,259,305 decreased (\$202,894) or (5%) from 2010. This decline was comprised of:
 - The Commonwealth of Pennsylvania's Public Library Subsidy decreased (\$126,004) or (11%).
 - Interest earnings declined: (\$55,253) or (55%)
 - Grants and miscellaneous income also declined (\$75,525) or (83%). This was due to decreased federal and state grant funds.
- Only one category of revenue increased in 2011. The Cumberland County library tax millage of .180 mil increased \$55,349 or 1.8 % from 2010.



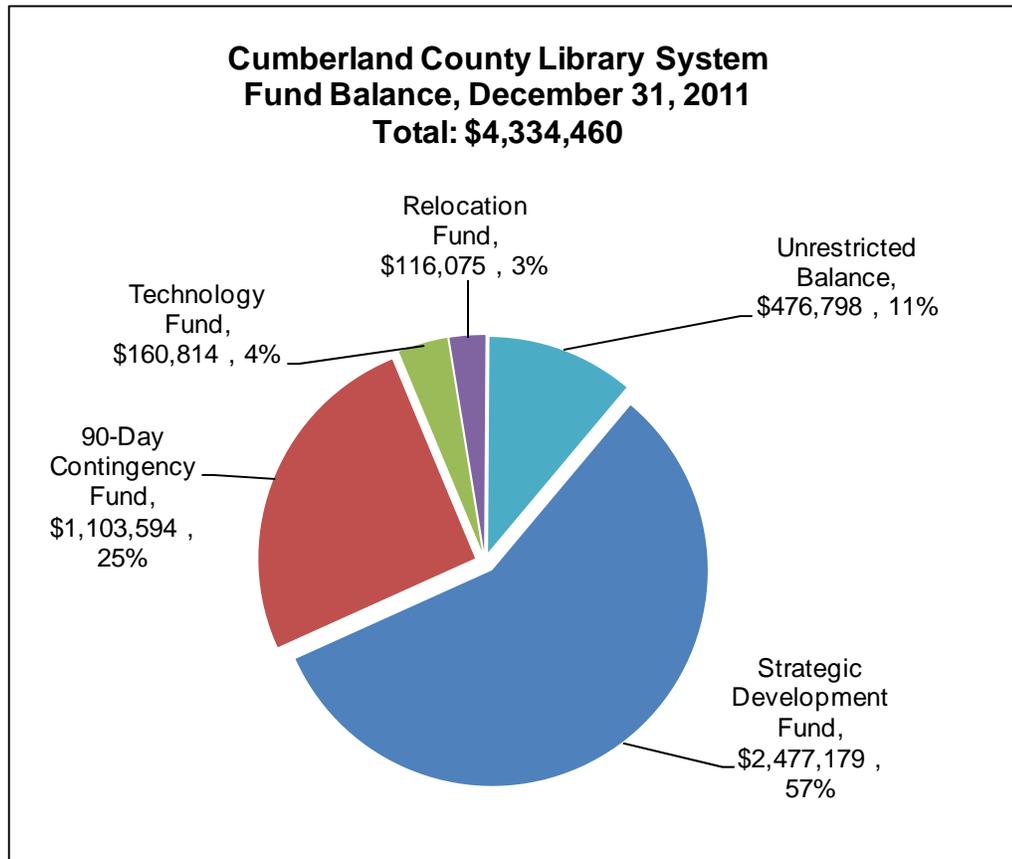
Cumberland County Library System Management's Discussion and Analysis Year Ending December 31, 2011

Expenditures

- Overall, the Library System's expenditures of \$4,285,856 decreased (\$264,069) or (6%) from 2010.
- As mutually agreed upon by the Library System Board and the Cumberland County Commissioners, member library distributions of \$2,953,968 decreased by (\$188,837) or (6%). However, this decrease can be attributed to the one-time distribution of \$306,071 in estate funds from Beatrice Kelley in 2010. (If this estate distribution is from comparison, member library distributions actually increased 5% or \$163,945 from 2010.) Member library distributions were 69% of operating expenditures.
- Administrative Office staff expenditures, \$807,765, decreased \$4,441 or 1% from 2010 and comprised 19% of the operating fund expenses.
- Administrative Office collection expenditures, \$136,222, decreased (\$77,208) or (36%) and comprised 3% of the system's operating fund expenditures.
- Administrative Office expenses for other items, \$318,432, decreased (\$93,677) or (23%) and comprised 7% of the system's operating fund expenditures
- Relocation and renovation expenses totaled \$69,469 and were 2% of overall operating expenditures in 2011.



**Cumberland County Library System
Management's Discussion and Analysis
Year Ending December 31, 2011**



Fund Balance

- The Library System Board withdrew \$80,288 from its Strategic Development Fund, using it as operating revenue in 2011. This was 1.8% of the Library System's 2011 operating revenue. The balance of this fund is now \$2,477,179.
- The Library System Board withdrew \$45,148 from its 90-Day Contingency Fund, transferring it to the Technology Fund. The 90-day contingency fund continues to be fully funded and has a balance of \$1,103,594.
- The Library System Board transferred \$35,181 from its Relocation Fund in 2011 to pay for costs related to its future move to the County's Ritner Highway building. This was less than 1% of the Library System's 2011 operating revenue. The balance of the Relocation Fund stands at \$116,075.
- After transferring \$45,148 from the 90-Day Contingency Fund to the Technology Fund, the Technology Fund now stands at \$160,814. These funds will be used for major upgrades to computer servers and software.
- The Library System carried over a \$476,798 unassigned balance for its 2012 operating budget.

7) Capital Asset and Long-Term Debt Activity:

Total Capital Assets (net of depreciation) were \$261,350 at December 31, 2011. There were no significant long-term debt activities for years ending December 31, 2011 and 2010.

**Cumberland County Library System
Management's Discussion and Analysis
Year Ending December 31, 2011**

The changes in capital assets for year ending December 31, 2011 are as follows:

Capital Assets, Dec. 31, 2011 (net of depreciation)	2011	2010	Change
Construction in progress	\$ 21,227	\$ 4,056	\$ 17,171
Exhaustible collection	28,610	34,736	(6,126)
Property and equipment	211,513	225,557	(14,044)
Total Capital Assets	\$ 261,350	\$ 264,349	(2,999)

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

County Library Tax revenues are expected to remain flat in 2012.

State Public Library Subsidy revenues will remain flat in 2012. Current budget proposals for 2013 call for the Public Library Subsidy to be cut about 5%.

In 2007, the Library System Board adopted a new five-year plan for countywide library services for the period 2009-2012. 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 2011, the Foundation provided about \$15,000 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's Administrative office in Carlisle, PA.

If you have questions about this MD&A, the Commonwealth Libraries annual report, or need additional information, contact the Cumberland County Library System at 1250 Ritner Highway, Carlisle, PA 17013 or by phone at (717) 240-6175.

CUMBERLAND COUNTY LIBRARY SYSTEM
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
December 31, 2011
(With Summarized Financial Information for December 31, 2010)

	<u>General Fund</u>	<u>Adjustments</u>	<u>Governmental Activities</u> <u>Statement of Net Assets</u>	
			<u>2011</u>	<u>2010</u> (as restated)
Assets				
Current assets				
Cash and cash equivalents	\$ 4,404,434	\$ 0	\$ 4,404,434	\$ 4,985,344
Accounts receivable	47,129	40,497	87,626	62,812
Total current assets	<u>4,451,563</u>	<u>40,497</u>	<u>4,492,060</u>	<u>5,048,156</u>
Noncurrent assets				
Construction in progress	0	21,227	21,227	4,056
Exhaustible collection (net of accumulated depreciation)	0	28,610	28,610	34,736
Property and equipment (net of accumulated depreciation)	0	211,513	211,513	225,557
Total noncurrent assets	<u>0</u>	<u>261,350</u>	<u>261,350</u>	<u>264,349</u>
Total assets	<u>\$ 4,451,563</u>	<u>\$ 301,847</u>	<u>\$ 4,753,410</u>	<u>\$ 5,312,505</u>
Liabilities				
Current liabilities				
Accounts payable	\$ 22,248	\$ 0	\$ 22,248	\$ 43,229
Accrued payroll and taxes	92,833	0	92,833	86,266
Compensated absences	0	34,633	34,633	33,944
Deferred grant revenues	2,022	0	2,022	519,724
Total current liabilities	<u>117,103</u>	<u>34,633</u>	<u>151,736</u>	<u>683,163</u>
Long-term liabilities				
OPEB liability	0	13,521	13,521	9,005
Compensated absences	0	25,571	25,571	23,678
Total long-term liabilities	<u>0</u>	<u>39,092</u>	<u>39,092</u>	<u>32,683</u>
Total liabilities	<u>117,103</u>	<u>73,725</u>	<u>190,828</u>	<u>715,846</u>
Fund balance/net assets				
Spendable fund balance				
Committed fund balance				
Strategic development	2,477,179	(2,477,179)	0	0
90-day contingency	1,103,594	(1,103,594)	0	0
Technology	160,814	(160,814)	0	0
Relocation	116,075	(116,075)	0	0
Unassigned fund balance	476,798	(476,798)	0	0
Total fund balance	<u>4,334,460</u>	<u>(4,334,460)</u>	<u>0</u>	<u>0</u>
Net assets				
Invested in capital assets	0	261,350	261,350	264,349
Unrestricted	0	4,301,232	4,301,232	4,332,310
Total net assets	<u>0</u>	<u>4,562,582</u>	<u>4,562,582</u>	<u>4,596,659</u>
Total liabilities and fund balance/net assets	<u>\$ 4,451,563</u>	<u>\$ 301,847</u>	<u>\$ 4,753,410</u>	<u>\$ 5,312,505</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 BALANCES
YEAR ENDED DECEMBER 31, 2011

(With Summarized Financial Information for the year ended December 31, 2010)

	<u>General Fund</u>	<u>Adjustments</u>	<u>Governmental Activities</u> <u>Statement of Activities</u>	
			<u>2011</u>	<u>2010</u>
				(as restated)
Program expenditures/expenses				
Pesonnal	\$ 807,765	\$ 7,098	\$ 814,863	\$ 822,171
Collection	136,222	(2,931)	133,291	204,410
Relocation expenditures	18,383	(9,544)	8,839	0
Renovation expenditures	51,086	(48,587)	2,499	0
Other operating expenditures	318,432	64,061	382,493	415,778
Member library distributions				
State public library subsidy	686,840	0	686,840	771,730
Cumberland County tax	2,237,435	0	2,237,435	2,041,582
Beatrice Kelley Estate	499	0	499	306,071
Health subsidy distribution	29,194	0	29,194	23,422
Total expenditures/expenses	<u>4,285,856</u>	<u>10,097</u>	<u>4,295,953</u>	<u>4,585,164</u>
Program revenues				
Capital grants				
Federal LSTA grants	9,039	0	9,039	47,418
Operating grants				
State public library subsidy	1,039,448	0	1,039,448	1,165,452
Other state and county revenue	<u>0</u>	<u>0</u>	<u>0</u>	<u>40,000</u>
Total program revenues	<u>1,048,487</u>	<u>0</u>	<u>1,048,487</u>	<u>1,252,870</u>
Net program revenue			(\$ 3,247,466)	(\$ 3,332,294)
General revenues				
Cumberland County tax revenue	\$ 3,154,878	\$ 2,571	\$ 3,157,449	\$ 3,101,974
Interest	41,534	0	41,534	96,787
Donations	8,339	0	8,339	9,800
Miscellaneous	6,067	0	6,067	1,081
Total general revenues	<u>3,210,818</u>	<u>2,571</u>	<u>3,213,389</u>	<u>3,209,642</u>
Excess of revenues over expenditures/change in net assets	(26,551)	(7,526)	(34,077)	(122,652)
Fund balance/net assets - beginning of year - as restated	<u>4,361,011</u>	<u>235,648</u>	<u>4,596,659</u>	<u>4,719,311</u>
Fund balance/net assets - end of year	<u>\$ 4,334,460</u>	<u>\$ 228,122</u>	<u>\$ 4,562,582</u>	<u>\$ 4,596,659</u>

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

CUMBERLAND COUNTY LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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 due to the fact the economic resources received or held by the Foundation is not significant to the Library System.

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 fund existing under its jurisdiction, which is considered a separate accounting entity. The operations of this fund are accounted for 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 the individual fund 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 assets 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 assets-governmental activities as reported in the government-wide statement of net assets. These differences are detailed below.

	<u>December 31, 2011</u>
Fund Balance, Governmental Funds	\$ 4,334,460
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the general fund. The \$865,641 represent's the entire book value of the Library System's governmental capital assets less \$604,291 of accumulated depreciation.	261,350
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.	40,497
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>73,725</u>)
Net Assets, Governmental Activities	<u>\$ 4,562,582</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 assets of governmental activities as reported in the government-wide statement of activities. These differences are detailed below.

	<u>Year Ended</u> <u>December 31, 2011</u>
Change in fund balance, Governmental Funds	(\$ 26,551)
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	\$ 100,955
Depreciation expense	(<u>103,954</u>)
	(2,999)
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.	2,571
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>7,098</u>)
Change in net assets, Governmental Activities	(\$ <u>34,077</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 assets 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
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.

Net Assets –Government-wide Financial Statements

In the government-wide financial statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt: This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those capital assets.

Restricted Net Assets This component consists of net assets with constraints placed on the use by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted Net Assets: This component consists of all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

When both restricted and unrestricted resources are available for use, it is the Library System’s policy to use unrestricted resources first, then restricted resources as they are needed, unless the Board has approved the use of restricted resources.

Fund Balance – Governmental Fund Financial Statements

In February 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds. The financial statements incorporate the changes required by Statement No. 54.

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.

Note 1. Summary of Significant Accounting Policies (Continued)

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. This formal action is in the form of formal action made by 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.

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.

Policy Regarding Order of Spending

When fund balance resources are available for a specific purpose in multiple classifications, 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 98% of its total program and general revenues from the Commonwealth of Pennsylvania and Cumberland County for the year ended December 31, 2011. 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, 2011, the Library System had deposit balances in the amount of \$ 4,397,773, of which \$ 327,279 was insured by FDIC and \$ 4,070,494 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, 2011 are as follows:

Cumberland County Library Tax - 2011	\$	75,755
Member libraries		<u>11,871</u>
Receivables - full accrual basis		87,626
Less revenues not received in 60 days	(	<u>40,497)</u>
Receivables - modified accrual basis	\$	<u><u>47,129</u></u>

Note 4. Capital Assets

Capital asset activity for the System consists of the following as of the year ended December 31, 2011:

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>
Governmental activities				
Capital assets not being depreciated				
Construction in progress	\$ 4,056	\$ 17,171	\$ 0	\$ 21,227 (1)
Capital assets being depreciated				
Exhaustible collection				
Cost				
STAR book collection	37,223	1,938	0	39,161
STAR AV collection	<u>30,092</u>	<u>993</u>	<u>0</u>	<u>31,085</u>
	<u>67,315</u>	<u>2,931</u>	<u>0</u>	<u>70,246</u>
Accumulated depreciation				
STAR book collection	(15,332)	(5,099)	0	(20,431)
STAR AV collection	<u>(17,247)</u>	<u>(3,958)</u>	<u>0</u>	<u>(21,205)</u>
	<u>(32,579)</u>	<u>(9,057)</u>	<u>0</u>	<u>(41,636)</u>
Exhaustible collection net of accumulated depreciation	<u>34,736</u>	<u>(6,126)</u>	<u>0</u>	<u>28,610</u>
Capital assets being depreciated				
Property and equipment				
Cost				
Office computers and equipment	127,652	40,254	0	167,906
Intralibrary computer network	477,720	31,154	(71,899)	436,975
Intralibrary computer software	<u>167,688</u>	<u>9,445</u>	<u>(7,846)</u>	<u>169,287</u>
	<u>773,060</u>	<u>80,853</u>	<u>(79,745)</u>	<u>774,168</u>
Accumulated depreciation				
Office computers and equipment	(59,672)	(21,016)	0	(80,688)
Intralibrary computer network	(333,728)	(63,543)	71,899	(325,372)
Intralibrary computer software	<u>(154,103)</u>	<u>(10,338)</u>	<u>7,846</u>	<u>(156,595)</u>
	<u>(547,503)</u>	<u>(94,897)</u>	<u>79,745</u>	<u>(562,655)</u>
Property and equipment net of accumulated depreciation	<u>225,557</u>	<u>(14,044)</u>	<u>0</u>	<u>211,513</u>
Total capital assets being depreciated, net	\$ <u>264,349</u>	(\$ <u>2,999</u>)	\$ <u>0</u>	\$ <u>261,350</u>

(1) – Construction in progress consists of renovation costs incurred by the Library System for the move to a new facility. See Note 13 for estimated commitments for construction of the new facility by the County.

Note 5. Compensated Absences

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. Accrued compensated absences balances changed as follows during the year ended December 31, 2011:

	<u>Beginning</u>			<u>Ending</u>		
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>	<u>Current</u>	<u>Long-Term</u>
Governmental activities						
Compensated Absences	<u>\$ 57,622</u>	<u>\$ 90,245</u>	<u>(\$ 87,663)</u>	<u>\$ 60,204</u>	<u>\$ 34,633</u>	<u>\$ 25,571</u>

Note 6. Deferred Revenues

Governmental funds present deferred 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. Deferred revenues in the General Fund of \$ 2,022 consist of grant funds received in 2011 but which cannot be spent until 2012.

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.

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.

Note 7. Other Postemployment Benefits (Continued)

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	360
Estimated adjustment to ARC	<u>(520)</u>
Annual OPEB Cost	4,690
Employer contributions - estimated	<u>(174)</u>
Increase in net OPEB obligation	4,516
Net OPEB obligation - beginning of the year	<u>9,005</u>
Net OPEB obligation - end of the year	<u>\$ 13,521</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
2011	\$ 4,690	3.7%	\$ 13,521
2010	\$ 6,896	41.1%	\$ 9,005
2009	\$ 6,978	28.8%	\$ 4,039

Funding Status of Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the plan had the following funded status and progress:

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued 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))
1/1/2011	\$ 0	\$ 24,638	\$ 24,638	0%	\$ 622,062	4.0%

Note 7. Other Post-Employment Benefits (Continued)

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 \$ 65,467 to the County of Cumberland Retirement Plan for its employees for the year ended December 31, 2011. 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.

Note 9. Fund Balance (Continued)

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 systems 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 intended 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.

Relocation

The purpose is intended for costs associated with the future relocation of the Library System administrative office to a Ritner Highway building, which is a County owned facility. It is anticipated that these funds will be used for costs associated with the renovation or move to the new building. Any income derived from the Relocation 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 management and tax collection services, which totaled \$ 807,765 for 2011. There is \$ 90,080 due to the County for payroll expenditures at December 31, 2011.

Note 11. Office Lease

The Library System leased office space owned by Bosler Memorial Library during 2011. Rent paid to Bosler Memorial Library for office space totaled \$ 30,850 for 2011. Currently, the Library System is leasing office space from Dickinson College for a total of \$ 1.

Note 12. 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 13. 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, 2011, 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.

Cumberland County has agreed to build a new building that will be occupied by both the County and the Library System. The Library System's costs associated with the building construction are estimated to be \$ 897,365, or \$ 599,065 for the building purchase and \$ 298,300 for its renovations. These capital costs will be reimbursed to the County over a period of time yet to be determined. It is estimated that the building will be completed in July of 2012 at which time the Library System will move into the new building.

Note 14. Restatement

A restatement was necessary in the current year to correct an understatement of accrued payroll as of December 31, 2010.

	<u>Governmental Activities</u>	<u>General Fund</u>
Net assets/fund balance, as originally stated	\$ 4,627,284	\$ 4,391,636
Restatement for accrued payroll	(30,625)	(30,625)
Net assets/fund balance, as restated	<u>\$ 4,596,659</u>	<u>\$ 4,361,011</u>
2010 Change in net assets/fund balance, as originally stated	(\$ 92,027)	(\$ 87,726)
Restatement for accrued payroll	(30,625)	(30,625)
2010 Change in net assets/fund balance, as restated	<u>(\$ 122,652)</u>	<u>(\$ 118,351)</u>

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)	Accrued AAL (UAAL) (b-a)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / (c))
1/1/2011	\$ 0	\$ 24,638	\$ 24,638	\$ 24,638	0.00%	\$ 622,062	4.0%
1/1/2009	\$ 0	\$ 29,488	\$ 29,488	\$ 29,488	0.00%	\$ 690,170	4.3%

This schedule will be expanded to show three year trend information as additional actuarial valuations are performed in the future.

CUMBERLAND COUNTY LIBRARY SYSTEM
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (UNAUDITED)
YEAR ENDED DECEMBER 31, 2011

	Original/Final Budget	General Fund Actual	Variance with Final Budget Positive (Negative)
Program revenues			
Capital grants			
Federal LSTA grants	\$ 16,200	\$ 9,039	(\$ 7,161)
Operating grants			
State public library subsidy	1,039,448	1,039,448	0
Other state and county revenue	<u>20,000</u>	<u>0</u>	<u>(20,000)</u>
Total program revenues	<u>1,075,648</u>	<u>1,048,487</u>	<u>(27,161)</u>
General revenues			
Cumberland County tax revenue	3,198,245	3,154,878	(43,367)
Interest	44,614	41,534	(3,080)
Donations	500	8,339	7,839
Miscellaneous	<u>60</u>	<u>6,067</u>	<u>6,007</u>
Total general revenue	<u>3,243,419</u>	<u>3,210,818</u>	<u>(32,601)</u>
Total revenue	<u>4,319,067</u>	<u>4,259,305</u>	<u>(59,762)</u>
Program expenditures			
Personnel	830,699	807,765	22,934
Collection	195,244	136,222	59,022
Relocation expenditures	0	18,383	(18,383)
Renovation expenditures	0	51,086	(51,086)
Other operating expenditures	431,981	318,432	113,549
Member library distributions			
State public library subsidy	686,840	686,840	0
Cumberland county tax	2,237,435	2,237,435	0
Beatrice Kelly Estate	0	499	(499)
Health subsidy distribution	<u>32,425</u>	<u>29,194</u>	<u>3,231</u>
Total expenditures	<u>4,414,624</u>	<u>4,285,856</u>	<u>128,768</u>
Change in fund balance	(95,557)	(26,551)	69,006
Fund balance - beginning of year - as restated	<u>4,018,655</u>	<u>4,361,011</u>	<u>342,356</u>
Fund balance - end of year	<u>\$ 3,923,098</u>	<u>\$ 4,334,460</u>	<u>\$ 411,362</u>

OTHER SUPPLEMENTARY INFORMATION

CUMERLAND COUNTY LIBRARY SYSTEM
DETAILED BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED DECEMBER 31, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Program revenues			
Federal LSTA grants	\$ 16,200	\$ 9,039	(\$ 7,161)
State public library subsidy	1,039,448	1,039,448	0
Other state and county revenue	<u>20,000</u>	<u>0</u>	<u>(20,000)</u>
Total program revenues	<u>1,075,648</u>	<u>1,048,487</u>	<u>(27,161)</u>
General revenues			
Cumberland county tax revenue	3,198,245	3,154,878	(43,367)
Interest	44,614	41,534	(3,080)
Donations	500	8,339	7,839
Miscellaneous	<u>60</u>	<u>6,067</u>	<u>6,007</u>
Total general revenues	<u>3,243,419</u>	<u>3,210,818</u>	<u>(32,601)</u>
Total revenues	<u>4,319,067</u>	<u>4,259,305</u>	<u>(59,762)</u>
Expenditures			
Personnel			
Wages	631,738	618,629	13,109
Benefits			
FICA-employer	48,328	46,499	1,829
Unemployment-employer	395	2,725	(2,330)
Worker's compensation	392	307	85
Health insurance	75,215	69,022	6,193
Life insurance	450	583	(133)
Disability insurance	4,690	4,533	157
Retirement	<u>69,491</u>	<u>65,467</u>	<u>4,024</u>
Total personnel expenditures	<u>830,699</u>	<u>807,765</u>	<u>22,934</u>
Collection			
Books	43,800	5,169	38,631
Periodicals and newspapers	835	802	33
DCED Grant - nonfiction materials	0	19,780	(19,780)
Audio visual	2,000	1,991	9
Grants	0	9,039	(9,039)
Electronic information and internet services	106,833	78,671	28,162
Library supplies	<u>41,776</u>	<u>20,770</u>	<u>21,006</u>
Total collection expenditures	<u>\$ 195,244</u>	<u>\$ 136,222</u>	<u>\$ 59,022</u>

CUMERLAND COUNTY LIBRARY SYSTEM
DETAILED BUDGETARY COMPARISON SCHEDULE (Continued)
YEAR ENDED DECEMBER 31, 2011

Expenditures (Cont'd.)	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Relocation expenditures	\$ 0	\$ 18,383	(\$ 18,383)
Renovation expenditures	0	51,086	(51,086)
Other operating expenditures			
Office			
Office supplies	3,600	2,532	1,068
Postage and delivery	26,500	14,097	12,403
Printing	5,000	126	4,874
Photocopier supplies & service	3,750	2,271	1,479
Computer equipment			
Hardware	66,100	35,377	30,723
Software	6,350	9,626	(3,276)
Office hardware and software maintenance	250	50	200
Automation hardware maintenance	35,089	16,245	18,844
Automation software maintenance	62,829	62,396	433
Occupancy			
Rent	36,840	30,850	5,990
Building maintenance	19,260	18,775	485
Utilities	18,800	12,918	5,882
Insurance	1,100	1,028	72
Telecommunications			
General office	2,500	2,414	86
Automation system	39,399	20,978	18,421
Public relations	6,325	6,306	19
Programming			
Summer reading	2,500	3,000	(500)
Trustee	500	390	110
Staff	3,000	2,409	591
Movie licensing USA	3,000	3,129	(129)
One book, One community	200	0	200
Contracted services			
Database	11,900	7,717	4,183
Consultant	1,000	0	1,000
Audit and Accounting	15,900	15,634	266
Other miscellaneous operating			
Dues and memberships	5,836	5,197	639
OCLC - Bibliographic Services	30,500	21,364	9,136
Cost of raising money and miscellaneous	15,918	16,780	(862)
Staff travel and training			
Travel	3,885	3,967	(82)
Continuing education	4,150	2,856	1,294
Total other operating expenditures	<u>\$ 431,981</u>	<u>\$ 318,432</u>	<u>\$ 113,549</u>

**CUMERLAND COUNTY LIBRARY SYSTEM
 DETAILED BUDGETARY COMPARISON SCHEDULE (Continued)
 YEAR ENDED DECEMBER 31, 2011**

Expenditures (Cont'd.)	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Member library distributions			
State public library subsidy			
Amelia S. Givin	\$ 46,197	\$ 46,197	\$ 0
Bosler	139,919	139,919	0
Cleve J. Fredrickson	205,204	205,204	0
John Graham	28,113	28,113	0
Joseph T. Simpson	135,955	135,955	0
New Cumberland	68,874	68,874	0
Shippensburg	<u>62,578</u>	<u>62,578</u>	<u>0</u>
Total state aid	<u>686,840</u>	<u>686,840</u>	<u>0</u>
Cumberland county tax			
Amelia S. Givin	150,486	150,486	0
Bosler	455,796	455,796	0
Cleve J. Fredrickson	668,469	668,469	0
John Graham	91,582	91,582	0
Joseph T. Simpson	442,886	442,886	0
New Cumberland	224,363	224,363	0
Shippensburg	<u>203,853</u>	<u>203,853</u>	<u>0</u>
Total Cumberland county tax	<u>2,237,435</u>	<u>2,237,435</u>	<u>0</u>
Beatrice Kelley estate			
Amelia S. Givin	0	30 (	30)
Bosler	0	92 (	92)
Cleve J. Fredrickson	0	184 (	184)
John Graham	0	18 (	18)
Joseph T. Simpson	0	89 (	89)
New Cumberland	0	45 (	45)
Shippensburg	<u>0</u>	<u>41 (</u>	<u>41)</u>
Total Beatrice Kelley estate	<u>0</u>	<u>499 (</u>	<u>499)</u>
Health subsidy distribution			
Amelia S. Givin	1,318	1,982 (	664)
Bosler	11,641	11,541	100
Cleve J. Fredrickson	6,955	6,535	420
John Graham	65	274 (	209)
Joseph T. Simpson	4,173	4,476 (	303)
New Cumberland	4,832	695	4,137
Shippensburg	<u>3,441</u>	<u>3,691 (</u>	<u>250)</u>
Total health subsidy distribution	<u>32,425</u>	<u>29,194</u>	<u>3,231</u>
Total expenditures	<u>\$ 4,414,624</u>	<u>\$ 4,285,856</u>	<u>\$ 128,768</u>