

Audited
Financial
Statements

December 31
2013

Cumberland County Library System

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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, 2013, 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, 2013, 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 2012 financial statements, and we have expressed unmodified audit opinions on those audited financial statements in our report dated May 8, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 16, the schedule of funding progress – OPEB on page 34, and budgetary comparison schedule – general fund on page 35 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.



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

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
July 9, 2014

CUMBERLAND COUNTY LIBRARY SYSTEM

Management's Discussion and Analysis

December 31, 2013

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, 2013. The MD&A also includes a 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. 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. Each Cumberland County Library System member library is also independently audited.

Overview of 2013 Activities

In 2013, the Library System Headquarters' significant initiatives included:

Library Service Initiatives

1. Worked with school district reading specialists to identify ways in which each library's youth services department could better support their work, as well as how to attract children who are most at risk of having poor reading skills to feel welcome in the library – especially during the summer months. Efforts in this area resulted in a 4% increase in elementary school children's participation in the system's annual summer reading program.
2. Initiated discussions with Cumberland County's court administrator regarding the transfer of the county's state-mandated law library to the Bosler Memorial Library.

CUMBERLAND COUNTY LIBRARY SYSTEM

Management's Discussion and Analysis

December 31, 2013

Information Technology Initiatives

1. After evaluating vendor responses to a competitive request for proposals, the Library System negotiated a contract with Comcast for Internet and wide area network services. The new contract not only improved services significantly, but reduced the system's 3-year projected costs for Internet and wide area network services 23%, or \$64,200. New wide area network services include:
 - Internet bandwidth service increased from 6 Mbps to 100 Mbps;
 - The internal network connection between from the system headquarters to the central backbone that serves member libraries increases from 45 Mbps to 1 Gbps;
 - Each library received 100 Mbps service from the central backbone (depending on the size of the facility, an increase from either 3 Mbps or 6 Mbps);
 - Established 200 Mbps service between the library system headquarters and the Court House (up from 45 Mbps).

The switchover from Level 3 to Comcast was completed by July 1, 2013.

2. Following evaluation of vendor responses to a competitive request for proposals, the Library System negotiated a contract with Innovative Interfaces, Inc. for its Sierra integrated library software platform. This new software provides improved and increased circulation self-service licenses, plus reduced the system's total 7-year projected costs for integrated library system by 19%, or \$114,138. Most of 2013 was spent learning about and preparing for a January 2014 software launch.
3. Using customer feedback and best practices, a new library system website was launched in May 2013. A separate staff intranet site debuted one month later. The site relies upon open source software technology (Drupal) and is expected to save the library system about \$8,000 per year, plus eliminate redundant staff tasks such of entering library event and program information twice (once on the website, and again in a separate website calendar system).
4. Following an evaluation of local usage patterns and best practices, the Library System updated its allocation methods for computer technology.
5. In accordance with the Library System's newly revised computer technology allocation methodology and its five-year technology life cycle policy, replaced about 45 public Internet and catalog computers at member libraries

Administrative and Financial Service Initiatives

1. Supported the Shippensburg Public Library in its successful application for a \$500,000 Keystone Recreation, Park and Conservation Fund grant for its building project.
2. Entered into a 20-year lease agreement with Cumberland County for the Library System Headquarters' office space at 1601 Ritner Highway, Suite 100.

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Management's Discussion and Analysis

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3. Working through the Cumberland County Library System Foundation received \$40,185 that consisted of:
 - Gifts and donations;
 - Collection development grants; and,
 - Educational improvement tax credit support for the annual summer reading program

In addition to these 2013 initiatives, the Library System Headquarters continued to provide member libraries and the public with services in six areas: 1) Information technology; 2) Collection 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 2013, the network was comprised of 318 computers, including 23 servers, more than 142 computers for the public and 153 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 76 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' website, 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 a website content management system.

In 2013, the Library System's web catalog was searched more than 2.8 million times, with citizens placing nearly 400,000 requests for items to be delivered to their home library for pick-up.

Collection Services

- b. Collection 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 Collection Services staff.

In 2013, 53,826 items were added to the Library Systems collections. Notably, in 2013 the department provided acquisitions, cataloging and processing support for two special collection development grants totaling \$13,000. These grants included:

1. \$3,000 from the Library Services and Technology grant program to support Bosler Memorial Library's economic development collection.

CUMBERLAND COUNTY LIBRARY SYSTEM

Management's Discussion and Analysis

December 31, 2013

2. \$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, collection services, training services and outreach services.

In 2013, over 2.7 million items were borrowed by library card members. This was 5% more than the prior year.

STAR Outreach Services for Older Adults

- d. Services for the Aged — To meet the library service needs of homebound adults, the Library System provided Cumberland County homebound adults with STAR services (Services to Adult Readers), at no charge. Through a countywide network of 86 volunteers, the Library System provided 181 homebound readers with library materials, including large print, audiobooks, and video recordings. The Library System Headquarters also provided large print book deposit collections to 50 nursing homes, senior centers, assisted and independent living residences in the county.

In 2013, homebound customers increased 6%, with 10 new homebound individuals being added. The number of items borrowed by homebound individuals increased 5%.

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 website to support staff and board member activities.

Due to the extensive training required to learn about the system's new integrated library system software, the number of staff who attended training sessions increased 99%. In 2013, 619 staff recorded 2889 learning hours.

Administrative & Financial Services

- f. Administrative & Financial Services — Administrative and financial services fell into three primary areas: 1) Library Service Planning, Coordination & Evaluation; 2) Advocacy & Public Relations; 3) Finance.

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Management's Discussion and Analysis

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2) FINANCIAL HIGHLIGHTS:

The Library System's revenues were \$34,157 more than budgeted. This was primarily due to higher than expected Cumberland County library tax revenues (\$33,302 more than budgeted).

The Library System's expenditures were \$554,272 more than budgeted. This was due to the manner in which generally accepted accounting principles requires the recording of the library system's 20-year office lease with Cumberland County. This is recorded in the general fund as a \$767,859 expenditure of funds to improve the premises and offsetting other financing source (revenue). The lease is to be paid over the course of the 20-year lease for the office space. In addition, once the first three years of the lease agreement have occurred, either the County or the Library System may give 24-months written notice to vacate the premises, and the Library System would not be liable for any remaining payments. If this amount (\$767,859) was excluded from the actual expenditures, the library system would actually be \$213,587 under budget.

In 2013, after reviewing projected income and expenditures over the next five years, the Library System Board received permission from the Commissioners to transfer \$310,027 from the Strategic Development Fund¹ to its operating account in order to balance its budget in 2013. This brought the Strategic Development Fund to a balance of \$1,902,152 as of December 31, 2013. The Library System Board anticipates drawing upon these funds again over the next several years to offset deficits for library services.

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 Fund Balance Sheet* — Provides details on the System Headquarters' 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.
- 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. Other Postemployment Benefits;
 7. Pension plan;
 8. Fund Balance;
 9. Related party transactions;
 10. Risk management; and
 11. Commitments and contingencies.

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.

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Management's Discussion and Analysis

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- d. *Other Postemployment Benefit Plan* — Provides unaudited information of funding progress on the postemployment benefit plan.
- e. *Budgetary Comparison Schedule - General Fund (Unaudited)* — Provides information on actual program and general revenues and expenditures as compared to budget.
- f. *Detailed Budgetary Comparison Schedule - General Fund* — Provides supplementary information that compares detailed budgeted and actual revenues and expenditures.

4) CONDENSED COMPARATIVE FINANCIAL STATEMENTS:

Statement of Net Position	Amount		Percentage	
	2013	2012	2013	2012
Assets				
Current Assets	\$ 3,985,933	\$ 4,106,796	78%	91%
Noncurrent assets	1,134,585	409,226	22%	9%
Total Assets	\$ 5,120,518	\$ 4,516,022	100%	100%
Liabilities				
Current liabilities	\$ 266,758	\$ 141,090	26%	77%
Long-term liabilities	753,331	43,119	74%	23%
Total Liabilities	\$ 1,020,089	\$ 184,209	100%	100%
Net Position				
Net investment in capital assets	\$ 395,757	\$ 409,226	10%	9%
Unrestricted	3,704,672	3,922,587	90%	91%
Total Net Position	\$ 4,100,429	\$ 4,331,813	100%	100%
Total Liabilities and Net Position	\$ 5,120,518	\$ 4,516,022		

CUMBERLAND COUNTY LIBRARY SYSTEM

Management's Discussion and Analysis

December 31, 2013

Statement of Activities	Amount		Percentage	
	2013	2012	2013	2012
Revenues				
Program Revenues				
Federal funds	\$ 5,416	\$ 11,769	0%	0%
State Funds	1,039,331	1,039,331	24%	24%
Other program funds	535	493	0%	0%
Total Program Revenues	\$ 1,045,282	\$ 1,051,593	24%	25%
General Revenues				
County tax revenue	\$ 3,228,089	\$ 3,179,937	75%	74%
Interest	16,261	24,174	0%	1%
Donations	8,692	12,848	0%	0%
Fines (Online Payments)	17,328	17,037	0%	0%
Miscellaneous	1250	165	0%	0%
Total General Revenues	\$ 3,271,620	\$ 3,234,161	76%	75%
Total Revenues	\$ 4,316,902	\$ 4,285,754	100%	100%
Program Expenses				
Wages and benefits	\$ 830,075	\$ 828,520	18%	18%
Collection	135,755	144,486	3%	3%
Relocation	0	525	0%	0%
Debt Service	22,739	0	0%	0%
Other operating	440,728	453,793	10%	10%
Member library distributions	3,118,989	3,089,199	69%	68%
Total expenses	\$ 4,548,286	\$ 4,516,523	100%	100%
Change in Net Position	(\$ 231,384)	(\$ 230,769)	(5%)	(5%)

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 \$ 1,162,807. 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.

CUMBERLAND COUNTY LIBRARY SYSTEM

Management's Discussion and Analysis

December 31, 2013

The Library System Board has a committed Strategic Development Fund balance of \$1,902,152. 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 public library subsidy funds during the period 2004-2013 for three purposes:

- a. *Fully Fund Library System's 90-day Contingency Fund* — Accomplished in 2005.
- b. *Maintain Library Services* — System Headquarters and its member library expenditures made from the combined total of Cumberland County Library Tax, Commonwealth of Pennsylvania Public Library Subsidy funds and Statewide Library Card Reimbursements in 2013 were increased/**(decreased)** by:
 - (1) 2.88% in 2004
 - (2) 1.90% in 2005;
 - (3) 0.23% in 2006;
 - (4) 13.61% in 2007 (Note: The increase was the result of a 20% increase in Commonwealth of Pennsylvania Public Library Subsidy Funds.)
 - (5) **(0.12%)** in 2008;
 - (6) **(0.89%)** in 2009;
 - (7) **(3.63%)** in 2010;
 - (8) 5.18% in 2011 (\$80,288 was transferred to the operating fund from the Strategic Development Fund);
 - (9) 4.18% in 2012 (\$265,000 was transferred to the operating fund from the Strategic Development Fund); and
 - (10) 2.17% in 2013 (\$310,027 was transferred to the operating fund from the Strategic Development Fund).
- 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, with the Commonwealth's elimination of the Statewide Library Card Reimbursement program, the County Commissioners approved the Library System Board's request to begin drawing from Strategic Development funds to prevent a budget deficit for library services, thus delaying a need to consider an increase the Cumberland County library tax.

CUMBERLAND COUNTY LIBRARY SYSTEM

Management's Discussion and Analysis

December 31, 2013

6) BUDGETARY ANALYSIS:

The Library System Headquarters' revenues were \$34,157 more than budgeted. This was due to:

- \$33,302 more than expected was received in 2013 from the Cumberland County Library Tax.
- \$5,301 more than expected was received in 2013 for fines.

The Library System Headquarters' expenditures were \$554,272 over budget. This was due to the manner in which generally accepted accounting principles requires the recording of the library system's 20-year office lease with Cumberland County. This is recorded in the general fund as a \$767,859 expenditure of funds to improve the premises. In addition, this potential expenditure is to be paid over the course of the 20-year lease for the office space. In addition, once the first three years of the lease agreement have occurred, either the county or the library system may give 24-months written notice to the other party, and the library system would not be liable for any remaining payments.

If this amount (\$767,859) was excluded from the actual expenditures, the Library System would be \$213,587 under budget. Lower than expected budget costs were due to:

- Personnel – \$31,081 savings;
- Library supplies - \$14,988 savings;
- Hardware and software –\$127,084 savings. The planned replacement of the system's integrated library system hardware and software was spread out over seven years by purchasing hosted software services; and,
- Utilities – a \$12,268 savings.

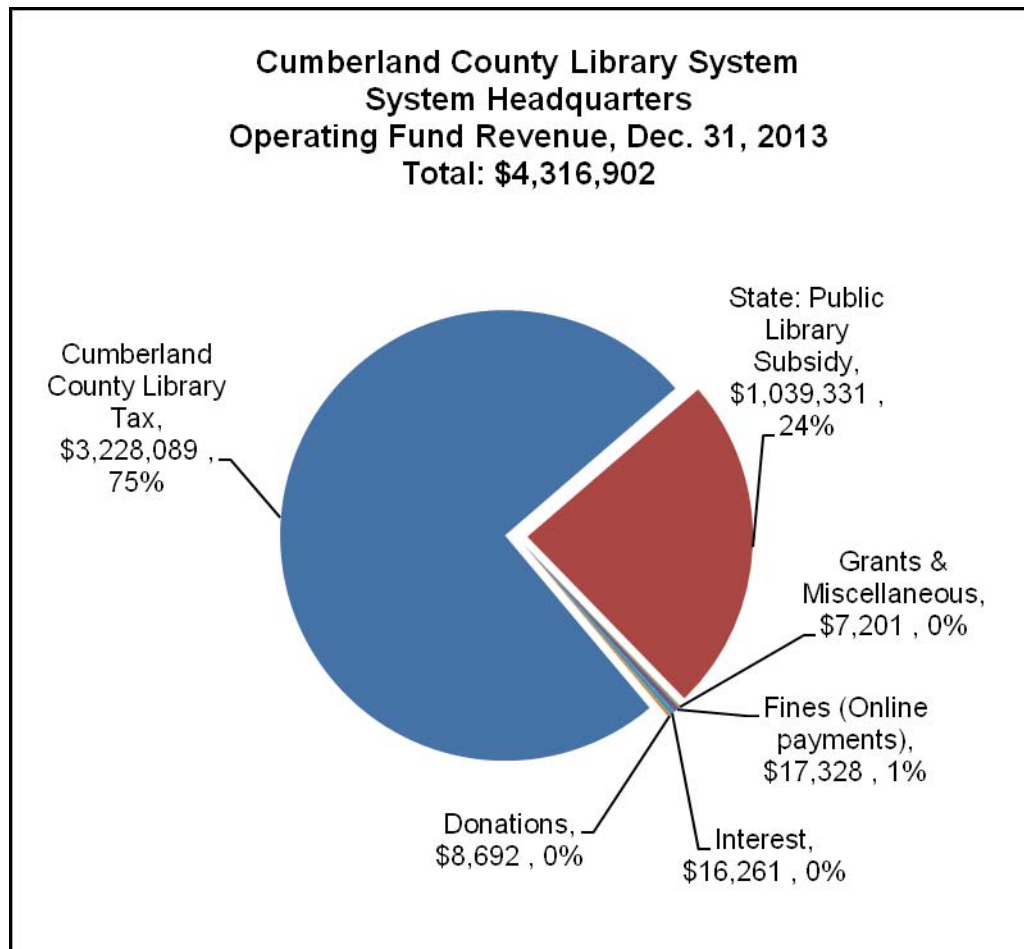
Revenues

- Overall, the Library System's revenue of \$4,316,902 increased \$34,606 or 0.8% from 2013. Again, this was primarily due to the growth in Cumberland County Library Tax funds.
- In addition, the proceeds from the capital lease, \$767,859, was another financing source during 2013.

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Management's Discussion and Analysis

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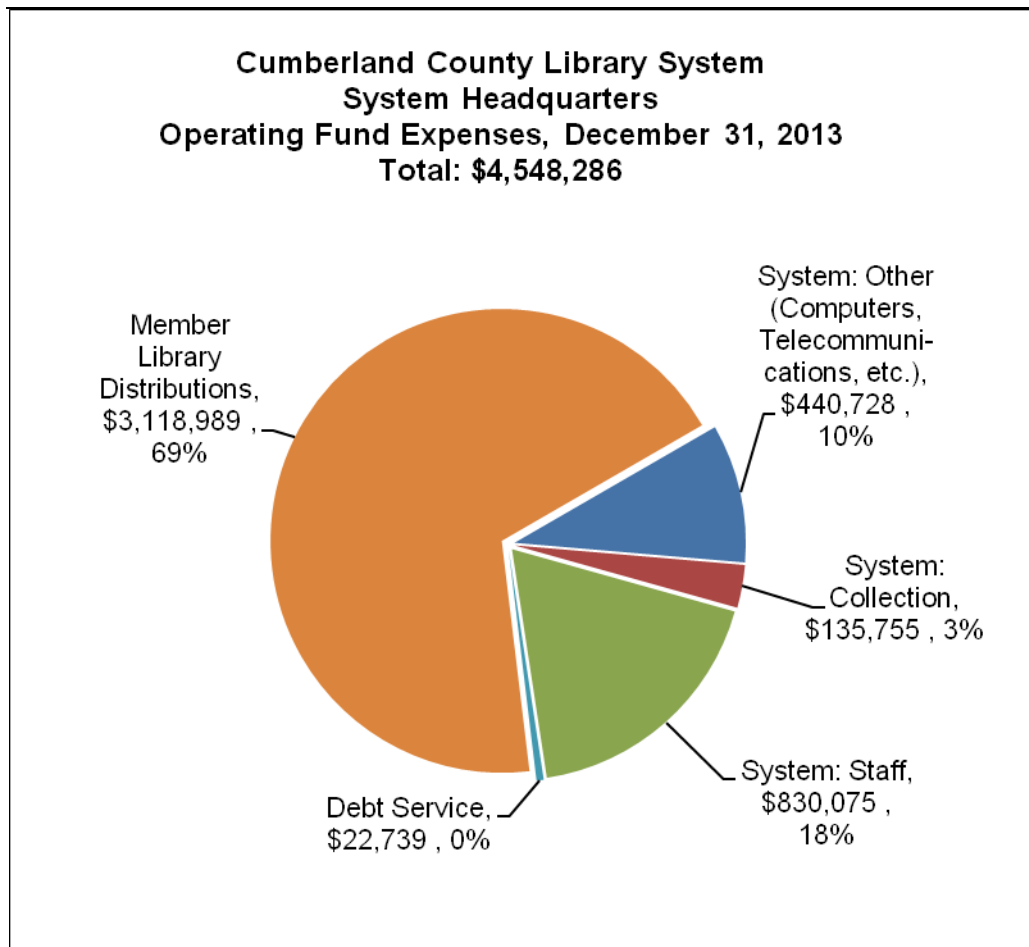
Expenses

- Overall, the Library System Headquarters' expenses of \$4,548,286 increased 0.7% or \$31,763 from 2012.
- Member library distributions of \$3,118,989 increased by \$29,790 or 1%. This increase can be attributed to the following:
 - \$30,361 increase in library tax distributions;
 - \$1,816 increase in online library fine payments; and a
 - \$1,390 increase in health insurance subsidies for member library staff;
- System Headquarters' staff expenses, \$830,075, increased \$1,555 or 0.2% from 2012 and comprised 18% of the operating fund expenses.
- System Headquarters' collection expenses, \$135,755, decreased **(\$8,731)** or **(6%)** and comprised 3% of the system's operating fund expenses.
- System Headquarters' expenses for other items, \$440,728, decreased **(\$13,065)** or **(3%)** and comprised 10% of the system's operating fund expenses.

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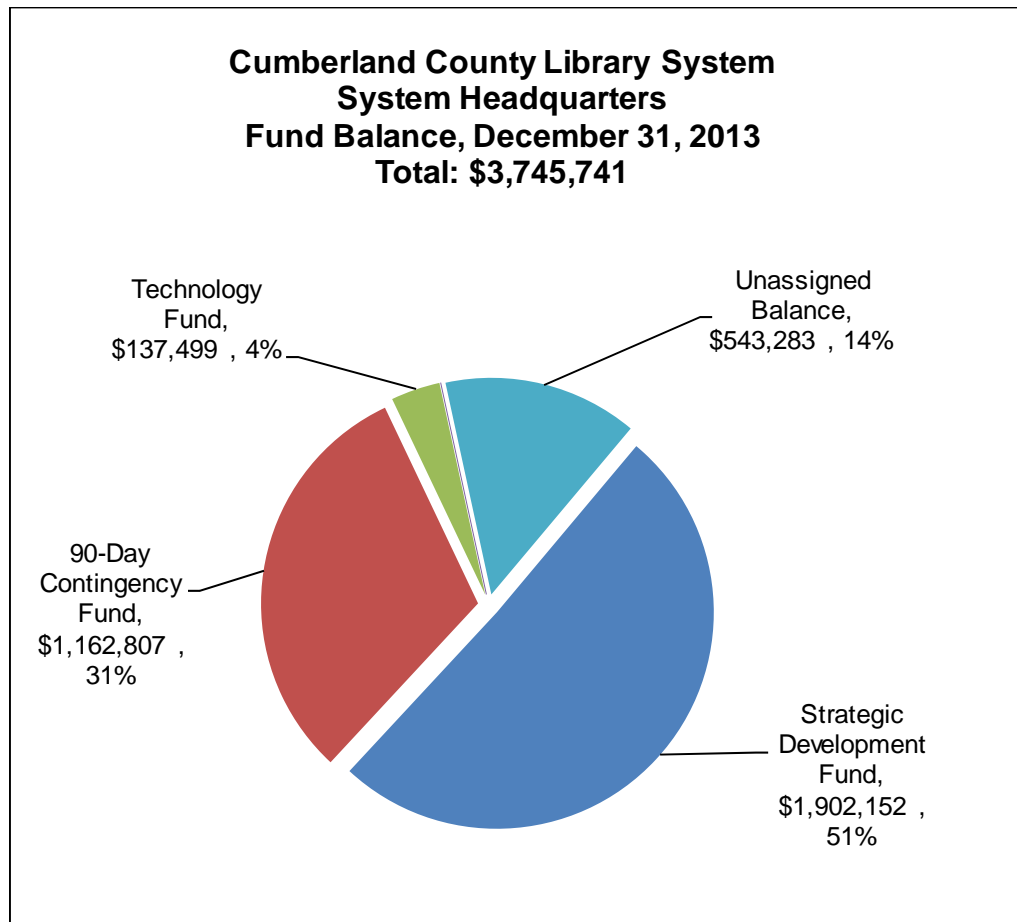
Fund Balance

- The Library System Board withdrew \$310,027 from its Strategic Development Fund, using it as operating revenue in 2013. This was 7% of the Library System's 2013 operating revenue. The balance of this fund is now \$1,902,152.
- The Library System Board added \$26,652 to its 90-Day Contingency Fund so that it was fully funded. It now has a balance of \$1,162,807.
- The Library System Board used \$91,550 of its Technology Fund. It now stands at \$137,499 and is expected to be used in the future for major upgrades to computer servers and software.
- The Library System carried over a \$543,283 unassigned balance for its 2014 operating budget cash flow needs.

CUMBERLAND COUNTY LIBRARY SYSTEM

Management's Discussion and Analysis

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7) CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY:

Total Capital Assets (net of depreciation) were \$1,134,585 at December 31, 2013. This was a significant net increase of \$725,359, which consisted of:

Capital Assets, Dec. 31, 2013 (net of depreciation)	2013	2012	Change
Construction in progress	\$ 0	\$ 228,167	(\$228,167)
Exhaustible collection	20,257	26,501	(6,244)
Property and equipment	1,114,328	154,558	959,770
Total Capital Assets	\$ 1,134,585	\$ 409,226	\$ 725,359

With the capitalization of the system's 20-year lease for office space, long-term debt increased \$738,828. In addition other post-employment benefits increased \$1,114 and the long-term liability for compensated absences increased \$1,059.

8) FACTORS BEARING ON THE SYSTEM'S FUTURE:

County Library Tax revenues are expected to grow less than 0.5% in 2014.

State Public Library Subsidy revenues will remain flat in 2014. Current budget proposals for 2015 call for the Public Library Subsidy to remain flat.

In 2013, the Library System Board adopted a new five-year plan for countywide library services for the period 2014-2017. 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 2013, the Foundation received \$40,084 in gifts, donations, grants and Educational Income Tax Credit support. 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, 2013
(With Summarized Financial Information for December 21, 2012)

	General Fund	Adjustments	Governmental Activities Statement of Net Position	
			2013	2012
Assets				
Current assets				
Cash and cash equivalents	\$ 3,762,524	\$ -	\$ 3,762,524	\$ 3,970,531
Accounts receivable	185,672	37,737	223,409	136,265
Total current assets	<u>3,948,196</u>	<u>37,737</u>	<u>3,985,933</u>	<u>4,106,796</u>
Noncurrent assets				
Construction in progress	-	-	-	228,167
Exhaustible collection (net of accumulated depreciation)	-	20,257	20,257	26,501
Property and equipment (net of accumulated depreciation)	-	1,114,328	1,114,328	154,558
Total noncurrent assets	<u>-</u>	<u>1,134,585</u>	<u>1,134,585</u>	<u>409,226</u>
Total assets	<u>\$ 3,948,196</u>	<u>\$ 1,172,322</u>	<u>\$ 5,120,518</u>	<u>\$ 4,516,022</u>
Liabilities				
Current liabilities				
Accounts payable	\$ 102,081	\$ -	\$ 102,081	\$ 9,122
Accrued payroll and benefits	100,374	-	100,374	94,638
Compensated absences	-	35,465	35,465	33,514
Unearned grant revenues	-	-	-	3,816
Long-term liabilities: Due within one year				
Capital lease payable	-	28,838	28,838	-
Total current liabilities	<u>202,455</u>	<u>64,303</u>	<u>266,758</u>	<u>141,090</u>
Long-term liabilities				
OPEB liability	-	18,883	18,883	17,769
Compensated absences	-	24,458	24,458	25,350
Capital lease payable	-	709,990	709,990	-
Total long-term liabilities	<u>-</u>	<u>753,331</u>	<u>753,331</u>	<u>43,119</u>
Total liabilities	<u>202,455</u>	<u>817,634</u>	<u>1,020,089</u>	<u>184,209</u>
Fund balance/net position				
Committed fund balance				
Strategic development	1,902,152	(1,902,152)	-	-
90-day contingency	1,162,807	(1,162,807)	-	-
Technology	137,499	(137,499)	-	-
Unassigned fund balance	<u>543,283</u>	<u>(543,283)</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>3,745,741</u>	<u>(3,745,741)</u>	<u>-</u>	<u>-</u>
Net position				
Net investment in capital assets	-	395,757	395,757	409,226
Unrestricted	-	3,704,672	3,704,672	3,922,587
Total net position	<u>-</u>	<u>4,100,429</u>	<u>4,100,429</u>	<u>4,331,813</u>
Total liabilities and fund balance/net position	<u>\$ 3,948,196</u>	<u>\$ 1,172,322</u>	<u>\$ 5,120,518</u>	<u>\$ 4,516,022</u>

CUMBERLAND COUNTY LIBRARY SYSTEM
Statement of Activities and Governmental Fund Revenues, Expenditures, and
Changes in Fund Balance
Year Ended December 31, 2013
(With Summarized Financial Information for December 21, 2012)

	General Fund	Adjustments	Governmental Activities Statement of Activities	
			2013	2012
Program expenditures/expenses				
Personnel	\$ 827,902	\$ 2,173	\$ 830,075	\$ 828,520
Collection	136,809	(1,054)	135,755	144,486
Relocation expenditures	-	-	-	525
Renovation expenditures	767,859	(767,859)	-	-
Other operating expenditures	397,174	43,554	440,728	453,793
Debt service				
Principal	29,031	(29,031)	-	-
Interest expense	22,739	-	22,739	-
Member library distributions				
State public library subsidy	688,218	-	688,218	688,218
Cumberland County tax	2,378,154	-	2,378,154	2,347,793
Beatrice Kelley Estate	-	-	-	3,777
Health subsidy distribution	37,292	-	37,292	35,902
Online fines and fees	15,325	-	15,325	13,509
Total expenditures/expenses	<u>5,300,503</u>	<u>(752,217)</u>	<u>4,548,286</u>	<u>4,516,523</u>
Program revenues				
Capital grants				
Federal LSTA grants	5,416	-	5,416	11,769
Operating grants				
State public library subsidy	1,039,331	-	1,039,331	1,039,331
Other state and county revenue	535	-	535	493
Total program revenues	<u>1,045,282</u>	<u>-</u>	<u>1,045,282</u>	<u>1,051,593</u>
Net program revenue			\$ (3,503,004)	\$ (3,464,930)
General revenues				
Cumberland County tax revenue	\$ 3,231,547	\$ (3,458)	\$ 3,228,089	\$ 3,179,937
Interest	16,261	-	16,261	24,174
Donations	8,692	-	8,692	12,848
Fines	17,328	-	17,328	17,037
Miscellaneous	1,250	-	1,250	165
Total general revenues	<u>3,275,078</u>	<u>(3,458)</u>	<u>3,271,620</u>	<u>3,234,161</u>
Other financing sources				
Proceeds from capital lease	767,859	(767,859)	-	-
Total other financing sources	<u>767,859</u>	<u>(767,859)</u>	<u>-</u>	<u>-</u>
Excess of revenues and other financing sources over (under) expenditures/change in net position	(212,284)	(19,100)	(231,384)	(230,769)
Fund balance/net position - beginning of year	<u>3,958,025</u>	<u>373,788</u>	<u>4,331,813</u>	<u>4,562,582</u>
Fund balance/net position - end of year	<u>\$ 3,745,741</u>	<u>\$ 354,688</u>	<u>\$ 4,100,429</u>	<u>\$ 4,331,813</u>

CUMBERLAND COUNTY LIBRARY SYSTEM

Notes to Financial Statements

December 31, 2013

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

Governmental Accounting Standards Board (GASB) Statements define the criteria used to determine the composition of the reporting entity. These standards require that the reporting entity include (1) the primary government; (2) organizations for which the primary government is financially accountable; (3) organizations that are fiscally dependent on the primary government and a financial benefit or burden exists; and (4) 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:

CUMBERLAND COUNTY LIBRARY SYSTEM

Notes to Financial Statements

December 31, 2013

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.

	December 31, 2013
Fund balance, Governmental Funds	\$ 3,745,741
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the general fund. The \$ 1,940,457 represents the entire book value of the Library System's governmental capital assets less \$ 843,672 of accumulated depreciation.	1,134,585
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.	37,737
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, but are included in the governmental activities of the Statement of Net Position. Long-term liabilities consist of:	
Capital lease payable	(738,828)
Compensated absences	(59,923)
OPEB liability	(18,883)
	<u>(817,634)</u>
Net position, Governmental Activities	<u>\$ 4,100,429</u>

CUMBERLAND COUNTY LIBRARY SYSTEM

Notes to Financial Statements

December 31, 2013

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 December 31, 2013
Change in fund balance, Governmental Funds	\$ (212,284)
 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	842,185
Depreciation expense	<u>(116,826)</u>
	725,359
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.	(3,458)
Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	29,031
The proceeds from the capital lease provide current financial resources to governmental funds, but has no effect on net position. The capital lease issued during the year was:	(767,859)
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. This is the difference between the amount incurred and the amount paid of:	
Compensated absences	(1,059)
OPEB liability	<u>(1,114)</u>
	<u>(2,173)</u>
Change in net position, Governmental Activities	<u>\$ (231,384)</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.

CUMBERLAND COUNTY LIBRARY SYSTEM

Notes to Financial Statements

December 31, 2013

Note 1 Summary of Significant Accounting Policies (Continued)

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.

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.

CUMBERLAND COUNTY LIBRARY SYSTEM

Notes to Financial Statements

December 31, 2013

Note 1 Summary of Significant Accounting Policies (Continued)

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.

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 6 for details on the other postemployment benefits offered by the Library System.

Deferred Outflows and 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 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.

CUMBERLAND COUNTY LIBRARY SYSTEM

Notes to Financial Statements

December 31, 2013

Note 1 Summary of Significant Accounting Policies (Continued)

Net Position – Government-wide Financial Statements (Continued)

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.

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.

CUMBERLAND COUNTY LIBRARY SYSTEM

Notes to Financial Statements

December 31, 2013

Note 1 Summary of Significant Accounting Policies (Continued)

Fund Balance – Governmental Fund Financial Statements

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.

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, 2013. Any reductions in funding could have a significant impact on the Library System.

CUMBERLAND COUNTY LIBRARY SYSTEM

Notes to Financial Statements

December 31, 2013

Note 2 Cash and Cash Equivalents and Investments

Pennsylvania Statutes Title 16, Paragraph 1706 authorizes the Library System to invest in the following:

- United States Treasury bills
- Short-term obligations of the United States Government or its agencies or instrumentalities.
- Deposits in savings accounts or time deposits including certificates of deposit purchased from institutions are insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured, and for any amounts above the insured maximum provided that approved collateral provided by law shall be pledged by the depository.
- Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania.

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, 2013, the Library System had deposit balances in the amount of \$ 3,785,248, of which \$ 500,000 was insured by FDIC and \$ 3,285,248 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly. Under this law, 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, 2013 are as follows:

Cumberland County Library Tax - 2013	\$	186,784
Member libraries		<u>36,625</u>
Receivables - full accrual basis		223,409
Less revenues not received in 75 days		<u>(37,737)</u>
Receivables - modified accrual basis	\$	<u><u>185,672</u></u>

CUMBERLAND COUNTY LIBRARY SYSTEM

Notes to Financial Statements

December 31, 2013

Note 4 Capital Assets

Capital asset activity for the System consists of the following as of the year ended December 31, 2013:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
<i>Capital assets not being depreciated:</i>				
Construction in progress	\$ 228,167	\$ 767,859	\$ (996,026)	\$ -
<i>Capital assets being depreciated:</i>				
Exhaustible collection				
Cost				
STAR book collection	44,158	1,054	(8,424)	36,788
STAR AV collection	32,092	-	(10,650)	21,442
	<u>76,250</u>	<u>1,054</u>	<u>(19,074)</u>	<u>96,378</u>
Accumulated depreciation				
STAR book collection	(25,205)	(4,664)	8,424	(38,293)
STAR AV collection	(24,544)	(2,634)	10,650	(37,828)
	<u>(49,749)</u>	<u>(7,298)</u>	<u>19,074</u>	<u>(76,121)</u>
Exhaustible collection net of accumulated depreciation	<u>26,501</u>	<u>(6,244)</u>	<u>-</u>	<u>20,257</u>
Property and equipment				
Cost				
Leasehold improvements	-	996,026	-	996,026
Office computers and equipment	196,971	10,272	(624)	206,619
Intralibrary computer network	446,947	63,000	-	509,947
Intralibrary computer software	169,287	-	-	169,287
	<u>813,205</u>	<u>1,069,298</u>	<u>(624)</u>	<u>1,881,879</u>
Accumulated depreciation				
Leasehold improvements	-	(49,801)	-	(49,801)
Office computers and equipment	(107,100)	(23,833)	624	(130,309)
Intralibrary computer network	(387,987)	(32,573)	-	(420,560)
Intralibrary computer software	(163,560)	(3,321)	-	(166,881)
	<u>(658,647)</u>	<u>(109,528)</u>	<u>624</u>	<u>(767,551)</u>
Property and equipment net of accumulated depreciation	<u>154,558</u>	<u>959,770</u>	<u>-</u>	<u>1,114,328</u>
Total capital assets being depreciated, net	<u>\$ 409,226</u>	<u>\$ 1,721,385</u>	<u>\$ (996,026)</u>	<u>\$ 1,134,585</u>

CUMBERLAND COUNTY LIBRARY SYSTEM

Notes to Financial Statements

December 31, 2013

Note 5 Long-Term Liabilities

The changes in long-term liabilities during the year ended December 31, 2013 were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Current	Long-Term
Governmental activities						
Capital Lease Payable	\$ -	\$ 767,859	\$ (29,031)	\$ 738,828	\$ 28,838	\$ 709,990
Compensated Absences	58,864	90,073	(89,014)	59,923	35,465	24,458
Total	<u>\$ 58,864</u>	<u>\$ 857,932</u>	<u>\$ (118,045)</u>	<u>\$ 798,751</u>	<u>\$ 64,303</u>	<u>\$ 734,448</u>

Capital Lease Payable

On April 15, 2013, the Library System entered into an agreement with Cumberland County for the relocation of its main office. 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. The Library System's portion of the additional costs incurred by Cumberland County was \$ 1,035,401. This will be paid back over the next twenty years, starting on January 1, 2013, with annual payments of \$ 51,770. The capital lease is noninterest bearing; therefore a discount rate of 3.16% was imputed to determine the capital lease principal balance and corresponding leasehold improvement of \$ 767,859. The lease is considered capital due to the fact the lease term is at least seventy-five percent of the asset's estimated economic life. The agreement states that either party may terminate the lease agreement at any time, with or without cause, after year 3, upon providing 24 months prior written notice to the other party. At this time, the possibility of cancellation is considered remote; therefore, the lease is capitalized. If this lease agreement was terminated, the Library system would not be liable for any remaining payments. If this were to occur, the remaining carrying value of the leasehold improvement asset and this capital lease would be written off and any difference would be recorded as gain or loss on disposal of asset at that time.

The future principal and interest payments, based on a discount rate of 3.16%, for the capital lease are as follows:

Fiscal Year	Principal	Interest	Total
2014	\$ 28,838	\$ 22,932	\$ 51,770
2015	29,763	22,007	51,770
2016	30,717	21,053	51,770
2017	31,702	20,068	51,770
2018	32,718	19,052	51,770
2019 - 2023	180,016	78,834	258,850
2024 - 2028	210,785	48,065	258,850
2029 - 2032	194,289	12,791	207,080
	<u>\$ 738,828</u>	<u>\$ 244,802</u>	<u>\$ 983,630</u>

CUMBERLAND COUNTY LIBRARY SYSTEM

Notes to Financial Statements

December 31, 2013

Note 5 Long-Term Liabilities (Continued)

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.

Note 6 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.

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.

CUMBERLAND COUNTY LIBRARY SYSTEM

Notes to Financial Statements

December 31, 2013

Note 6 Other Postemployment Benefits (Continued)

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)	\$ 1,586
Estimated interest on net OPEB obligation	711
Estimated adjustment to ARC	<u>(1,028)</u>
Annual OPEB Cost	1,269
Employer contributions - estimated	<u>(155)</u>
Increase in net OPEB obligation	1,114
Net OPEB obligation - beginning of the year	<u>17,769</u>
Net OPEB obligation - end of the year	<u>\$ 18,883</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
2013	\$ 1,269	12.2%	\$ 18,883
2012	\$ 4,609	7.8%	\$ 17,769
2011	\$ 4,690	3.7%	\$ 13,521

Funding Status of Funding Progress

As of January 1, 2013, 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))
01/01/13	\$ -	\$ 10,782	\$ 10,782	0%	\$ 627,676	1.7%

CUMBERLAND COUNTY LIBRARY SYSTEM

Notes to Financial Statements

December 31, 2013

Note 6 Other Postemployment 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 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 6.1 percent trending to 3.8 percent, (e) the amortization method for the most recent actuarial valuation is the level dollar method with an open period.

Note 7 Pension Plan

All Library System full time employees of the Library System are employed by the County of Cumberland and 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 \$ 63,748 to the County of Cumberland Retirement Plan for its employees for the year ended December 31, 2013. 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 is maintained by the County.

CUMBERLAND COUNTY LIBRARY SYSTEM

Notes to Financial Statements

December 31, 2013

Note 8 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 9 Related Party Transactions

While the Library System is not a component unit of the County of Cumberland, the Library System employees are employed by Cumberland County does provide payroll and benefits services on behalf of Library System staff, which totaled \$ 827,902 for 2013. There is \$ 99,477 due to the County for payroll related expenditures at December 31, 2013.

CUMBERLAND COUNTY LIBRARY SYSTEM

Notes to Financial Statements

December 31, 2013

Note 10 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 11 Commitments and Contingencies

The Library System signed a contract in 2013 for software, services, hosting and all server related functions totaling \$ 554,144. In 2013, one-time service fees were incurred totaling \$ 63,000, leaving \$ 491,144 that will be paid over a seven year period as annual subscription fees.

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, 2013, 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 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))
01/01/13	\$ -	\$ 10,782	\$ 10,782	0.00%	\$ 627,676	1.7%
01/01/12	\$ -	\$ 33,471	\$ 33,471	0.00%	\$ 630,463	5.3%
01/01/11	\$ -	\$ 24,638	\$ 24,638	0.00%	\$ 622,062	4.0%

CUMBERLAND COUNTY LIBRARY SYSTEM
Budgetary Comparison Schedule - General Fund (Unaudited)
Year Ended December 31, 2013

	Original/Final Budget	General Fund Actual	Variance with Final Budget Positive (Negative)
Program revenues			
Capital grants			
Federal LSTA grants	\$ 5,000	\$ 5,416	\$ 416
Operating grants			
State public library subsidy	1,039,331	1,039,331	-
Other state and county revenue	-	535	535
Total program revenues	<u>1,044,331</u>	<u>1,045,282</u>	<u>951</u>
General revenues			
Cumberland County tax revenue	3,198,245	3,231,547	33,302
Interest	20,500	16,261	(4,239)
Donations	11,000	8,692	(2,308)
Fines	12,027	17,328	5,301
Miscellaneous	100	1,250	1,150
Total general revenues	<u>3,241,872</u>	<u>3,275,078</u>	<u>33,206</u>
Total revenue	<u>4,286,203</u>	<u>4,320,360</u>	<u>34,157</u>
Program expenditures			
Personnel	858,983	827,902	31,081
Collection	151,517	136,809	14,708
Renovation expenditures	-	767,859	(767,859)
Other operating expenditures	571,784	397,174	174,610
Debt service			
Principal	28,944	29,031	(87)
Interest	22,671	22,739	(68)
Member library distributions			
State public library subsidy	688,218	688,218	-
Cumberland county tax	2,378,154	2,378,154	-
Health subsidy distribution	35,550	37,292	(1,742)
Online fines and fees	10,410	15,325	(4,915)
Total expenditures	<u>4,746,231</u>	<u>5,300,503</u>	<u>(554,272)</u>
Other financing sources			
Proceeds from capital lease	-	767,859	(767,859)
Change in fund balance	(460,028)	(212,284)	(179,430)
Fund balance - beginning of year	<u>3,947,482</u>	<u>3,958,025</u>	<u>10,543</u>
Fund balance - end of year	<u>\$ 3,487,454</u>	<u>\$ 3,745,741</u>	<u>\$ (168,887)</u>

OTHER SUPPLEMENTARY INFORMATION

CUMBERLAND COUNTY LIBRARY SYSTEM
Detailed Budgetary Comparison Schedule - General Fund
Year Ended December 31, 2013

	Budget	Actual	Variance
Revenues			
Program revenues			
Federal LSTA grants	\$ 5,000	\$ 5,416	\$ 416
State public library subsidy	1,039,331	1,039,331	-
Other state and county revenue	-	535	535
Total program revenues	<u>1,044,331</u>	<u>1,045,282</u>	<u>951</u>
General revenues			
Cumberland county tax revenue	3,198,245	3,231,547	33,302
Interest	20,500	16,261	(4,239)
Donations	11,000	8,692	(2,308)
Fines	12,027	17,328	5,301
Miscellaneous	100	1,250	1,150
Total general revenues	<u>3,241,872</u>	<u>3,275,078</u>	<u>33,206</u>
Total revenues	<u>4,286,203</u>	<u>4,320,360</u>	<u>34,157</u>
Expenditures			
Personnel			
Wages	634,323	634,451	(128)
Benefits			
FICA-employer	48,526	47,800	726
Unemployment-employer	3,200	2,392	808
Worker's compensation	951	937	14
Health insurance	75,359	73,784	1,575
Life and Disability insurance	4,647	4,790	(143)
Retirement	91,977	63,748	28,229
Total personnel expenditures	<u>858,983</u>	<u>827,902</u>	<u>31,081</u>
Collection			
Books	7,250	1,865	5,385
Periodicals and newspapers	793	766	27
Audio visual	1,400	1,079	321
Collection development grants	-	6,449	(6,449)
Electronic information and internet services	93,252	92,816	436
Library supplies	48,822	33,834	14,988
Total collection expenditures	<u>\$ 151,517</u>	<u>\$ 136,809</u>	<u>\$ 14,708</u>

CUMBERLAND COUNTY LIBRARY SYSTEM
Detailed Budgetary Comparison Schedule - General Fund (Continued)
Year Ended December 31, 2013

	Budget	Actual	Variance
Expenditures (Cont'd.)			
Renovation expenditures	\$ -	\$ 767,859	\$ (767,859)
Other operating expenditures			
Office			
Office supplies	3,000	2,901	99
Postage and delivery	29,130	26,604	2,526
Printing	5,000	5,068	(68)
Photocopier supplies & service	6,000	4,458	1,542
Computer equipment			
Hardware	98,002	45,618	52,384
Software	152,900	78,200	74,700
Office hardware and software maintenance	950	184	766
Automation hardware maintenance	16,506	17,748	(1,242)
Automation software maintenance	17,799	15,390	2,409
Occupancy			
Building maintenance	28,000	22,094	5,906
Utilities	30,720	18,452	12,268
Insurance	1,050	999	51
Telecommunications			
General office	2,500	2,580	(80)
Automation system	76,576	68,276	8,300
Public relations	7,050	5,511	1,539
Programming			
Summer reading	3,000	3,000	-
Trustee	500	144	356
Staff	5,250	2,781	2,469
Movie licensing USA	2,800	2,755	45
One book, One community	200	126	74
Contracted services			
Database	7,460	6,734	726
Consultant	2,500	-	2,500
Audit and Accounting	15,900	14,909	991
Other miscellaneous operating			
Dues and memberships	5,369	5,052	317
OCLC - Bibliographic Services	26,487	25,000	1,487
Cost of raising money and miscellaneous	16,050	15,026	1,024
Staff travel and training			
Travel	3,385	3,945	(560)
Continuing education	7,700	3,619	4,081
Total other operating expenditures	<u>571,784</u>	<u>397,174</u>	<u>174,610</u>
Debt service			
Principal	28,944	29,031	(87)
Interest expense	22,671	22,739	(68)
Total debt service	<u>\$ 51,615</u>	<u>\$ 51,770</u>	<u>\$ (155)</u>

CUMBERLAND COUNTY LIBRARY SYSTEM
Detailed Budgetary Comparison Schedule - General Fund (Continued)
Year Ended December 31, 2013

	Budget	Actual	Variance
Expenditures (Cont'd.)			
Member library distributions			
State public library subsidy			
Amelia S. Givin	\$ 46,318	\$ 46,318	\$ -
Bosler	138,744	138,744	-
Cleve J. Fredrickson	207,485	207,485	-
John Graham	28,577	28,577	-
Joseph T. Simpson	136,909	136,909	-
New Cumberland	67,672	67,672	-
Shippensburg	62,513	62,513	-
Total state public library subsidy	<u>688,218</u>	<u>688,218</u>	<u>-</u>
Cumberland county tax			
Amelia S. Givin	160,055	160,055	-
Bosler	479,432	479,432	-
Cleve J. Fredrickson	716,969	716,969	-
John Graham	98,749	98,749	-
Joseph T. Simpson	473,092	473,092	-
New Cumberland	233,841	233,841	-
Shippensburg	216,016	216,016	-
Total Cumberland county tax	<u>2,378,154</u>	<u>2,378,154</u>	<u>-</u>
Health subsidy distribution			
Amelia S. Givin	1,452	2,015	(563)
Bosler	11,578	12,145	(567)
Cleve J. Fredrickson	7,281	7,303	(22)
John Graham	1,452	1,511	(59)
Joseph T. Simpson	4,357	4,534	(177)
New Cumberland	4,357	4,534	(177)
Shippensburg	5,073	5,250	(177)
Total health subsidy distribution	<u>35,550</u>	<u>37,292</u>	<u>(1,742)</u>

CUMBERLAND COUNTY LIBRARY SYSTEM
Detailed Budgetary Comparison Schedule - General Fund (Continued)
Year Ended December 31, 2013

	Budget	Actual	Variance
Expenditures (Cont'd.)			
Member library distributions			
Online fines and fees			
Amelia S. Givin	\$ 632	\$ 244	\$ 388
Bosler	1,193	2,605	(1,412)
Cleve J. Fredrickson	4,842	6,955	(2,113)
John Graham	205	52	153
Joseph T. Simpson	1,826	2,825	(999)
New Cumberland	954	1,179	(225)
Shippensburg	758	1,465	(707)
Total online fines and fees	<u>10,410</u>	<u>15,325</u>	<u>(4,915)</u>
Total expenditures	<u>4,746,231</u>	<u>5,300,503</u>	<u>(554,272)</u>
Other financing sources			
Proceeds from capital lease	<u>-</u>	<u>767,859</u>	<u>767,859</u>
Total other financing sources	<u>\$ -</u>	<u>\$ 767,859</u>	<u>\$ 767,859</u>