

Audited
Financial
Statements

December 31,
2017

Cumberland County Library System

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Cumberland County Library System
Carlisle, Pennsylvania

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and the major fund of Cumberland County Library System, as of and for the year ended December 31, 2017, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Cumberland County Library System as of December 31, 2017, 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.

Report on Summarized Comparative Information

We have previously audited the Cumberland County Library System's 2016 financial statements, and we have expressed unmodified audit opinions on those audited financial statements in our report dated August 2, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 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 3 through 14, 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.

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.

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.



Chambersburg, Pennsylvania
June 14, 2018

CUMBERLAND COUNTY LIBRARY SYSTEM

Management's Discussion and Analysis

December 31, 2017

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, 2017. 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. One County Commissioner serves as a liaison to the Library System Board.

The Library System Board has exclusive control of Cumberland 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.

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 and member library operations. Each Cumberland County Library System member library is independently governed and audited.

The System also has an independent Cumberland County Library System Foundation that is a nonprofit, tax-exempt organization. The Commissioners make one appointment to this board.

Overview of 2017 Activities

In 2017, the library system headquarters' significant initiatives included:

1. **Circulation of Materials:** Cardholders borrowed more than 2.3 million items in 2017 from Cumberland County's public libraries.

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2. **Reading Support for Young Children:** In 2017, children borrowed 922,450 items from Cumberland County's libraries. This was an average of 21 items for every child in the county. In addition, over 119,600 kids attended regular infant, toddler and preschool Storytime classes held throughout the year at libraries and 6,381 children registered for the annual summer reading program. (This is one out of three children who were learning to read in Cumberland County.)

An outcome-based survey of children who participated found that:

- 68% of children surveyed said that the summer reading program allowed them to learn something new.
- 84% of children said that as a result of the program they became better readers.
- 98% of children said that they plan to visit the library again once school starts.
- 100% of children said they plan to visit the library next summer.

3. **Bridging the Digital Divide:** Citizens logged on to the library system's public Internet computers 120,350 times. In addition, citizens used the library system's Wi-Fi services 216,072 times. This reflects a continued need for public internet access.
4. **Safe, Welcoming Gathering Spaces:** Over 1.1 million people visited Cumberland County's libraries in 2017. (This is more than the combined annual totals for Carlisle's 10 car shows, visitors to the Army Heritage Center and to Cumberland County's state parks.)

In addition to these 2017 initiatives, the library system headquarters continued to provide member libraries and the public with services in seven key areas: 1) information technology; 2) collection services; 3) direct library services; 4) administrative and financial services; 5) training services for staff and board members; 6) fundraising; and 7) star outreach services to older adults.

Key Service Areas:

1. **Information Technology Services:** To make library and information services widely accessible to Cumberland County residents, the System Headquarters maintained a high-speed county wide library network. In 2017, the network was comprised of 323 computers, including 24 servers, 142 computers for the public and 182 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 seventy-six computers at the system's largest library, Fredricksen, to nine 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 2017, the system's Public Internet computers were used 120,350 times and the library system's web site was visited more than 845,000 times — a decrease of 21% Public Internet use and a 21% increase in visits (respectively) from the prior year.

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2. **Collection Management Services:** To provide library users with 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 2017, 25,275 items were added to the Library Systems collections – a 2% decrease from the previous year.
3. **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, youth service librarians as well as staff from computer services, collection services, training services and outreach services. In 2017, the number of library card holders (102,857) increased 1% from the previous year.
4. **Administrative & Financial Services:** Administrative and financial services fell into three primary areas: 1) library service planning, coordination, and evaluation; 2) public relations; 3) finance.
5. **Training Services for Staff and Board Members:** To meet the ongoing training needs of member library staff, the System Headquarters provided a system-wide training program for staff that emphasized customer service. As part of its training program, it also maintained an Intranet website to support staff and board member activities. In 2017, 141 staff recorded 267 learning hours. These numbers were reduced from the previous year because staff providing training services was not hired until July of 2017, reducing staff trained and learning hours.
6. **Fundraising Services:** During 2017, a search was conducted for a Development Coordinator to facilitate fundraising efforts for member libraries. Beginning in 2018, a full time staff member will be devoted to increasing the Library System fundraising efforts.
7. **STAR Outreach Services for Older Adults:** 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 county wide network of 88 volunteers, the Library System provided homebound readers with library materials, including large print, audiobooks, and video recordings. The library system headquarters also provided large print book deposit collections to 52 nursing homes, senior centers, assisted and independent living residences in the county. In 2017, the number of items borrowed (9,401 items) by homebound individuals, a 4% increase from the previous year.

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2) COSTS BY KEY SERVICE AREA FINANCIAL DISTRIBUTION:

The library systems costs are distributed based on the expenses related to the service provided. During 2017, the Training Services position was vacant until July, causing the decrease in costs compared to 2016. Information Technology Services purchase of new point of sale systems for each library caused an increase.

Library System Office Key Service Areas	Description	2017	% of Exp.	2016	% of Exp.	% Inc. or Dec.	Costs Include
Information Technology Services	Provides member libraries with a county wide 300-PC network plus library management software for circulation, cataloging, online public access catalogs and public computing services.	631,630	41%	578,311	37%	9%	Staff costs, hardware/ software upgrades, maintenance and telecommunications costs
Collection Management Services	Provides member libraries with 'back-office' support for the purchase of library materials, cataloging and processing of materials.	424,347	28%	436,559	28%	-3%	Staff costs and bibliographic database support fees
Direct Library Services for the Public	Provides county residents and taxpayers with a free library card to use public library services throughout Cumberland County, both online and in person.	270,990	18%	248,958	16%	9%	Online databases, Internet, library supplies, library delivery, printing, programming, health insurance subsidy
Administrative & Financial Support	Provides library service planning, coordination and evaluation, bookkeeping, policy development, advocacy and public relations.	110,004	7%	99,027	6%	11%	Staff, staff training, mileage reimbursement and professional services
Training Services for Staff & Board Members	Provides county wide training for new and existing library staff, with an emphasis on maintaining and improving technology skills.	30,090	2%	111,417	7%	-73%	Staff, professional collection and training materials, staff development and workshop fees
Fundraising Services	Provides support for library fund raising and development	6,411	0%	16,031	1%	-60%	Staff, dues, mileage, software
Homebound and Nursing Home Services	Provides free selection and delivery of library materials to about home-bound Cumberland County seniors and senior facilities.	50,795	3%	55,123	4%	-8%	Staff, large print and audio library materials
Subtotal System Office Services		1,524,268	100%	1,545,426	100%	-114%	

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3) FINANCIAL HIGHLIGHTS:

In 2017, the library system's total revenues were \$ 5,083,019, which is an increase of 12.6% from prior year. This reflects an increase in Cumberland County Library Tax, the first increase in 8 years, and a reclassification of Capital Leases. Total expenditures were \$ 4,983,328, an increase of \$ 355,625 or 7% from the prior year. The change in net position was \$ 99,691 as compared to (\$ 185,588) for the prior budget year.

The fund balance as of December 31, 2017 is \$ 3,144,218 and was comprised of four components:

1. **125-Day Contingency Fund Balance of \$ 1,850,574:** The purpose of the 125-Day Contingency Fund is to have funds available to replace unexpected shortfalls in budgeted income or to meet unexpected, yet necessary, expenditures. For example, Commonwealth Libraries has sometimes delayed making state aid payments at the beginning of the calendar year; or due to cash flow issues, the County has sometimes delayed payment of anticipated library tax funds. When these occurrences result in the unassigned fund balance dipping below the defined minimum unassigned fund balance, the Library System Board can approve the use of contingency funds to replace state aid or county funds to ensure that the library system has sufficient funding to operate. Then, when the state or County payments is restored, the 125-Day Contingency Funds are replaced. The balance needed in this fund is based upon 125 days of average General Fund budgeted expenditures, including those amounts budgeted for member library distributions.
2. **Technology Fund Balance \$ 167,464:** The Technology Fund is intended for the future upgrades to the library system's integrated library system server and software systems.
3. **Unassigned Fund Balance of \$ 1,113,264:** This fund is the residual classification for the general fund and includes all amounts not contained in any other classifications. Unassigned amounts are available for any purpose. The Unassigned Fund Balance amount was 23% of the system's total operating expenditures – an indicator of sound financial practices.
4. **Non-spendable fund balance of \$ 12,916:** This fund represents a contractual service prepayment.

CUMBERLAND COUNTY LIBRARY SYSTEM
Management's Discussion and Analysis
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4) 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 position, with a comparison to the prior year.
- b. *Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance* — 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. Fund balance;
 7. Related party transactions;
 8. Risk management; and
 9. Commitments and contingencies.
- d. *Budgetary Comparison Schedule - General Fund (Unaudited)* — Provides information on actual program and general revenues and expenditures as compared to budget.
- e. *Detailed Budgetary Comparison Schedule - General Fund* — Provides supplementary information that compares detailed budgeted and actual revenues and expenditures.

5) CONDENSED COMPARATIVE FINANCIAL STATEMENTS

Statement of Net Position	Amount		Percentage	
	2017	2016	2017	2016
Assets				
Current Assets	\$ 3,316,726	\$ 3,369,484	87%	76%
Noncurrent assets	485,038	1,084,141	13%	24%
Total Assets	\$ 3,801,764	\$ 4,453,625	100%	100%
Liabilities				
Current liabilities	\$ 166,114	\$ 299,838	95%	21%
Long-term liabilities	8,725	626,553	5%	79%
Total Liabilities	\$ 174,839	\$ 926,391	100%	100%
Net Position				
Net investment in capital assets	470,659	344,054	13%	10%
Unrestricted	3,156,266	3,183,180	87%	90%
Total Net Position	\$ 3,626,925	\$ 3,527,234	100%	100%
Total Liabilities and Net Position	\$ 3,801,764	\$ 4,453,625		

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Statement of Activities	Amount		Percentage	
	2017	2016	2017	2016
Revenues				
Program Revenues				
State Funds	\$ 1,058,037	\$ 1,058,037	21%	24%
Grants	53,158	20,359	1%	0%
Other program funds	686	343	0%	0%
Total Program Revenues	1,111,881	1,078,739	25%	24%
General Revenues				
County tax revenue	3,912,497	3,344,062	77%	75%
Interest	28,949	20,952	1%	0%
Donations	4,322	1,906	0%	0%
Fines (Online Payments)	19,557	16,629	0%	0%
Miscellaneous and other	5,813	(20,173)	0%	0%
Total General Revenues	3,971,138	3,363,376	75%	76%
Total Revenues	5,083,019	4,442,115	100%	100%
Program Expenses				
Wages and benefits	789,962	865,747	16%	19%
Collection	230,340	149,717	5%	3%
Debt service	20,068	21,053	0%	0%
Other operating	437,431	418,101	9%	9%
Member library distributions	3,505,527	3,173,085	70%	69%
Total expenses	4,983,328	4,627,703	100%	100%
Change in Net Position	\$ 99,691	\$ (185,588)		

6) 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. At the close of December 31, 2017, its assets stood at \$ 3,801,764 compared to the prior year's \$ 4,453,625. The decrease in assets was due to the change in capitalization of the Capital Lease discussed in Note 5.

The library system headquarters completed the year with an Unassigned Fund Balance of \$ 1,113,264. This is 23% of the system's total operating expenditures or 2.5 months of regular general fund operating expenditures. The Government Finance Officers Association recommends a minimum of two months of regular general fund operating expenditures.¹ This would have been \$ 827,210 in 2017.

In addition, the library system headquarters had a fully funded 125-day Contingency Fund Balance of \$ 1,850,574. This committed fund balance includes not only the library system headquarters' 125-day operational cash needs, but also a cash reserve for 125-days of member library distributions.

In 2011, The Commonwealth of Pennsylvania eliminated the Statewide Library Card Reimbursement program. This led to the Library System Board and the County Commissioners agreeing to begin making withdrawals from the 125-Day funds to prevent a budget deficit for library services.

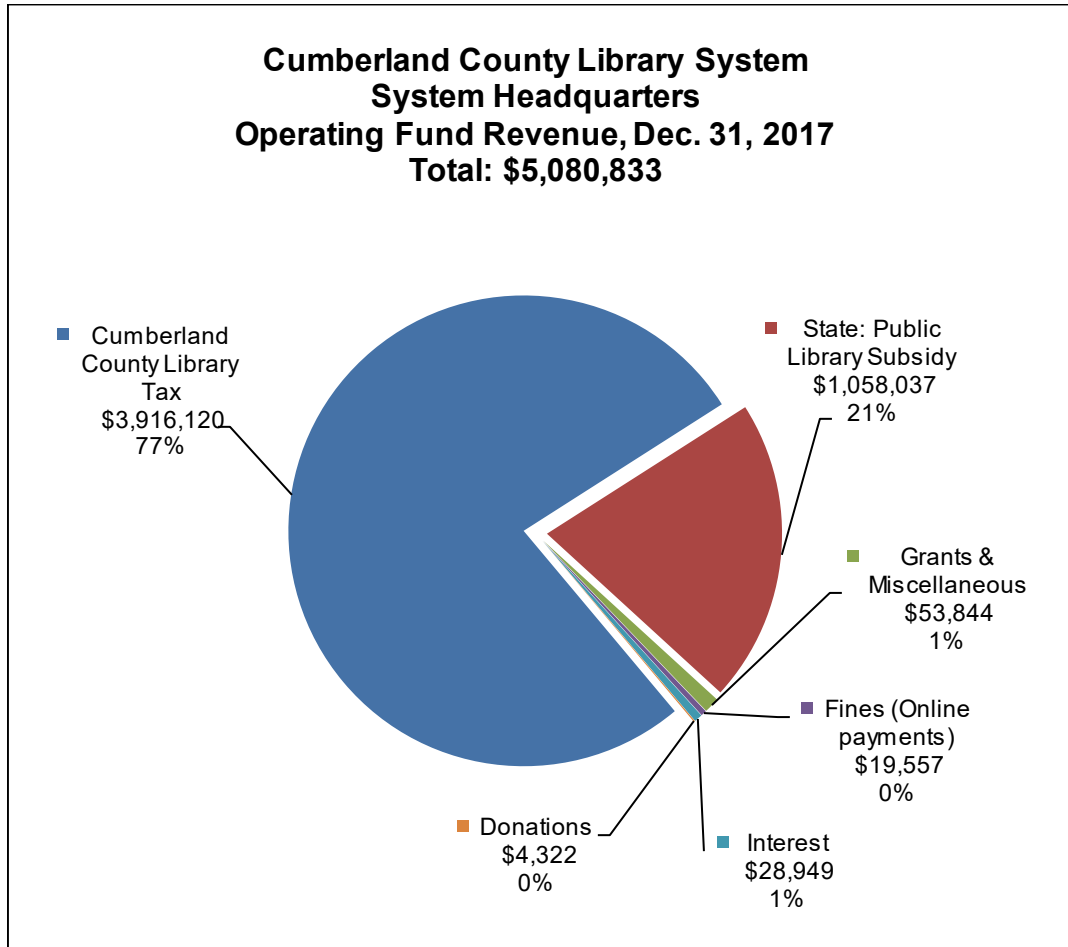
¹ Gauthier, Stephen J., "GFOA Updates Best Practice on Fund Balance," *Government Finance Review*. December 2009, page 69.

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Management's Discussion and Analysis
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BUDGETARY ANALYSIS:

Revenues

Overall, the library system's total revenues were \$ 5,080,833, an increase of \$ 616,633 compared to the prior year. This increase was the result of an increase in Library tax, the first increase in 10 years. In addition, an increase in interest revenue of \$ 15,024, from investment changes added to the increase in revenue.



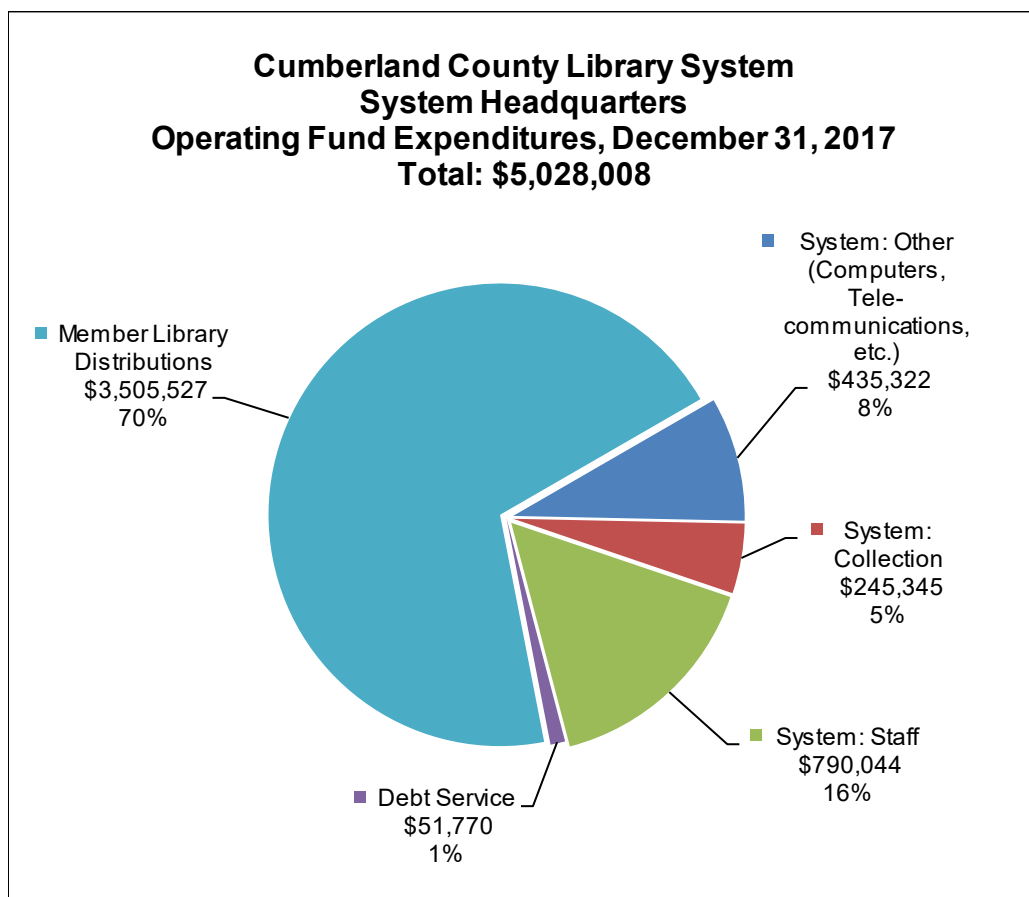
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Expenditures

Overall, the library system's total expenditures of \$ 5,028,008 increased 7.1% or \$ 334,422 from the prior year. While wages and benefits decreased due to personnel changes, collection increases offset some of that decrease. In addition, member library distributions of \$ 3,505,527, increased by \$ 332,442, due to the County tax millage increase in 2017.

The Library System's expenditures were \$ 243,990 less than budgeted. This was due to:

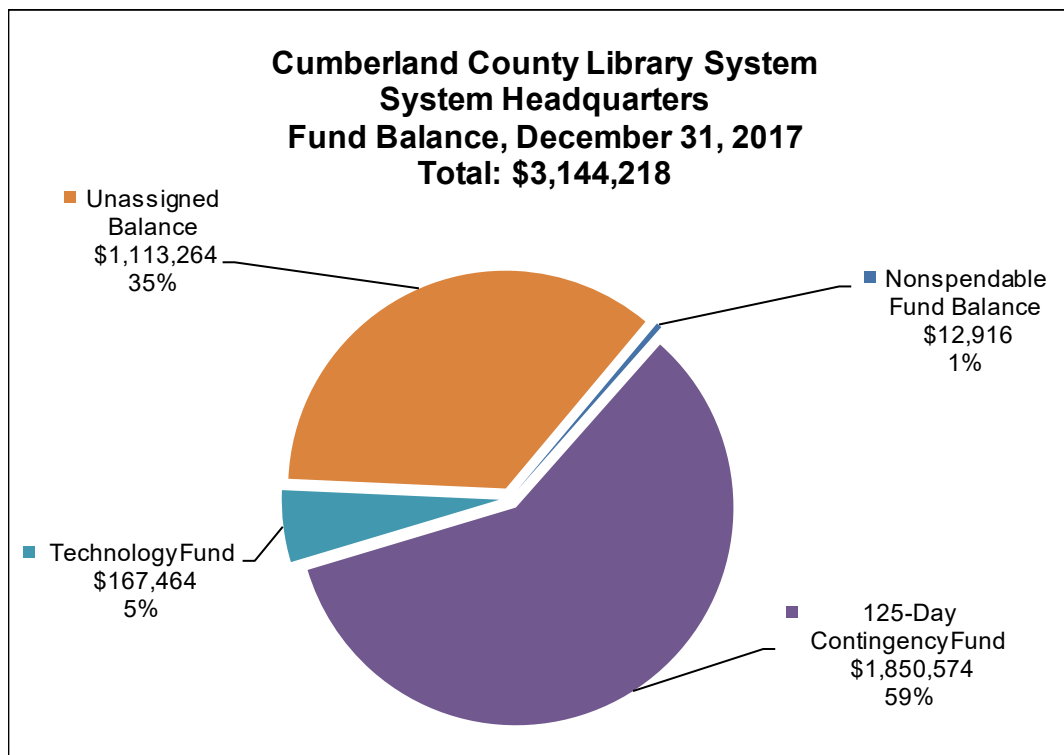
- Personnel expenditures were \$ 112,101 under budget due to the change of executive director and delays in filling the training and development coordinator positions; and
- Other operating expenditures were \$ 119,660 under budget. Lower than expected wide area network costs due to billing over charges in the prior year, and catching up of Erate credits, unused consultant services, and no staff training program in 2017 all contributed to this decrease. Continuing education costs were also lower than expected.



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Fund Balance

- The Library System Board transferred \$ 159,174 from the 125-Day Fund, to fund a budget deficit in 2017. This was 3% of the Library System's 2017 operating revenue.
- The Library System Board transferred \$ 56,639 Technology Funds to cover major computer purchases in 2017. The fund now stands at \$ 167,464.
- The Library System carried over a \$ 1,113,264 Unassigned Fund Balance for its 2018 operating budget cash flow needs.
- The Library System also carried over \$ 12,916 non-spensible funds.



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Management's Discussion and Analysis
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7) CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY:

Total Capital Assets (net of depreciation) were \$ 485,038 at December 31, 2017. This was a \$ 599,103 decrease in total capital assets.

Capital Assets, Dec. 31, 2016 (net of depreciation)	2017	2016	Change
Exhaustible collection	\$ 27,791	\$ 27,631	\$ 160
Property and equipment	457,247	1,056,510	(599,263)
Total Capital Assets	485,038	1,084,141	(599,103)

Total leasehold improvements of \$ 575,894 were written off at December 31, 2017. See Note 5 for explanation of this change.

8) FACTORS BEARING ON THE SYSTEM'S FUTURE:

In 1986, a Cumberland County Library Tax was established by voter referendum. The library tax may only be used for annual operations, not for construction of new building space. The County remits tax proceeds to the library system on a monthly basis. By 2016, the library tax was set at .143 mil, which netted about \$ 3.3 million. On December 5, 2016, the Cumberland County Commissioners approved a modest increase to the library tax from .143 mil to .166 mil, effective January 1, 2017. This yielded \$ \$568,435 in additional library tax support. The taxpayer base for Cumberland County is expected to grow less than 1% in 2018.

Public Library Subsidy revenue from the Commonwealth of Pennsylvania increased 1.8% in 2016, and was level-funded in 2017.

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 Library System and its member libraries. In 2017, the Foundation received \$14,572 in gifts, donations and grants. This \$ 42,860 decrease from 2016 was due to delayed approval for EITC funding, a 50% decrease from a major donor, and an 85% reduction in grant income to the Foundation. Donations of \$6000 in Educational Improvement Tax Credits were received in 2017. Additional information about its activities may be found at: <http://cclsfoundation.org>.

In 2012, the Library System Board adopted a new five-year plan for county wide library services for the period 2013-2017. It identifies core services and audiences, financial strategies and technology plans. A copy may be found at: <http://cumberlandcountylibraries.org/plan>.

A copy of the Strategic Partnership Agreement with Cumberland County Commissioners is available at: http://www.cumberlandcountylibraries.org/Building_Consensus

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, 2017
(With Summarized Financial Information for December 31, 2016)

	General Fund	Adjustments	Governmental Activities Statement of Net Position	
			2017	2016
Assets				
Current assets				
Cash and cash equivalents	\$ 2,211,051	\$ -	\$ 2,211,051	\$ 2,214,685
Investments	1,016,570	-	1,016,570	1,005,235
Accounts receivable	43,621	32,568	76,189	144,145
Prepaid items	<u>12,916</u>	<u>-</u>	<u>12,916</u>	<u>5,419</u>
Total current assets	<u>3,284,158</u>	<u>32,568</u>	<u>3,316,726</u>	<u>3,369,484</u>
Noncurrent assets				
Exhaustible collection (net of accumulated depreciation)	-	27,791	27,791	27,631
Property and equipment (net of accumulated depreciation)	<u>-</u>	<u>457,247</u>	<u>457,247</u>	<u>1,056,510</u>
Total noncurrent assets	<u>-</u>	<u>485,038</u>	<u>485,038</u>	<u>1,084,141</u>
Total assets	<u>\$ 3,284,158</u>	<u>\$ 517,606</u>	<u>\$ 3,801,764</u>	<u>\$ 4,453,625</u>
Liabilities				
Current liabilities				
Accounts payable	\$ 43,459	\$ -	\$ 43,459	\$ 123,804
Accrued payroll and benefits	96,481	-	96,481	118,096
Compensated absences	-	26,174	26,174	26,236
Long-term liabilities: Due within one year				
Capital lease payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,702</u>
Total current liabilities	<u>139,940</u>	<u>26,174</u>	<u>166,114</u>	<u>299,838</u>
Long-term liabilities				
Compensated absences	-	8,725	8,725	8,745
Capital lease payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>617,808</u>
Total long-term liabilities	<u>-</u>	<u>8,725</u>	<u>8,725</u>	<u>626,553</u>
Total liabilities	<u>139,940</u>	<u>34,899</u>	<u>174,839</u>	<u>926,391</u>
Fund balance/net position				
Fund balance				
Nonspendable fund balance				
Prepaid items	12,916	(12,916)	-	-
Committed fund balance				
125-day contingency	1,850,574	(1,850,574)	-	-
Technology	167,464	(167,464)	-	-
Unassigned fund balance	<u>1,113,264</u>	<u>(1,113,264)</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>3,144,218</u>	<u>(3,144,218)</u>	<u>-</u>	<u>-</u>
Net position				
Net investment in capital assets	-	470,659	470,659	344,054
Unrestricted	<u>-</u>	<u>3,156,266</u>	<u>3,156,266</u>	<u>3,183,180</u>
Total net position	<u>-</u>	<u>3,626,925</u>	<u>3,626,925</u>	<u>3,527,234</u>
Total liabilities and fund balance/net position	<u>\$ 3,284,158</u>	<u>\$ 517,606</u>	<u>\$ 3,801,764</u>	<u>\$ 4,453,625</u>

CUMBERLAND COUNTY LIBRARY SYSTEM
Statement of Activities and Governmental Fund Revenues, Expenditures, and
Changes in Fund Balance
Year Ended December 31, 2017
(With Summarized Financial Information for the Year Ended December 31, 2016)

	General Fund	Adjustments	Governmental Activities Statement of Activities	
			2017	2016
Program expenditures/expenses				
Personnel	\$ 790,044	\$ (82)	\$ 789,962	\$ 865,747
Collection	245,345	(15,005)	230,340	149,717
Other operating expenditures	435,322	2,109	437,431	418,101
Debt service				
Principal	31,702	(31,702)	-	-
Interest expense	20,068	-	20,068	21,053
Member library distributions				
State public library subsidy	700,603	-	700,603	700,600
Cumberland County tax	2,741,724	-	2,741,724	2,413,836
Health subsidy distribution	47,467	-	47,467	44,044
Online fines and fees	15,733	-	15,733	14,605
Total expenditures/expenses	<u>5,028,008</u>	<u>(44,680)</u>	<u>4,983,328</u>	<u>4,627,703</u>
Program revenues				
Operating grants				
State public library subsidy	1,058,037	-	1,058,037	1,058,037
LSTA grant	41,358	-	41,358	-
Other grants	11,800	-	11,800	20,359
Other state and county revenue	686	-	686	343
Total program revenues	<u>1,111,881</u>	<u>-</u>	<u>1,111,881</u>	<u>1,078,739</u>
Net program revenue			<u>(3,871,447)</u>	<u>(3,548,964)</u>
General revenues				
Cumberland County tax revenue	3,916,120	(3,623)	3,912,497	3,344,062
Interest	28,949	-	28,949	20,952
Donations	4,322	-	4,322	1,906
Fines	19,557	-	19,557	16,629
Miscellaneous	4	-	4	4
Gain (loss) on sale of capital assets	-	(36,105)	(36,105)	(20,177)
Gain on cancellation of capital lease	-	41,914	41,914	-
Total general revenues	<u>3,968,952</u>	<u>2,186</u>	<u>3,971,138</u>	<u>3,363,376</u>
Revenues over (under) expenditures/ change in fund balance/net position	52,825	46,866	99,691	(185,588)
Fund balance/net position - beginning of year	<u>3,091,393</u>	<u>435,841</u>	<u>3,527,234</u>	<u>3,712,822</u>
Fund balance/net position - end of year	<u>\$ 3,144,218</u>	<u>\$ 482,707</u>	<u>\$ 3,626,925</u>	<u>\$ 3,527,234</u>

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements
December 31, 2017

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 financially accountable (because it does not have the ability to impose its will or have a financial benefit or burden relationship) even though the County appoints a voting majority of the Organization's governing board.

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 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, 2017

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 Fund - The General 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, 2017
Fund balance, Governmental Funds	\$ 3,144,218
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the general fund.	
Cost of assets	1,038,188
Accumulated depreciation	(553,150)
	485,038
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.	32,568
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:	
Compensated absences	(34,899)
	(34,899)
Net position, Governmental Activities	\$ 3,626,925

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements
December 31, 2017

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.

	December 31, 2017
Change in fund balance, Governmental Funds	\$ 52,825
<p>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:</p>	
Capital asset purchases	149,567
Depreciation expense	(136,671)
	12,896
<p>In the statement of activities, only the gain on the sale of capital assets is reported, whereas in governmental funds, the proceeds from the sale increases other financing sources. Thus, the change in net position differs from the changes in fund balance by the undepreciated cost of the capital assets disposed of.</p>	
	(36,105)
<p>In the statement of net position, the cancellation of the capital lease is recorded as a gain on cancellation of capital leases, which is not reported in governmental funds. The details of this gain are as follows:</p>	
Leasehold improvements, net of accumulated depreciation	(575,894)
Capital lease payable	617,808
	41,914
<p>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.</p>	
	(3,623)
<p>Repayment of debt principal (including capital lease) is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>	
	31,702
<p>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.</p>	
	82
Change in net position, Governmental Activities	\$ 99,691

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, 2017

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 expenditures 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, 2017

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 as expense in the government-wide financial statements as incurred.

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.

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. Restricted net position as of December 31, 2017 is for large print books.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position – Government-wide Financial Statements (Continued)

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

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

Fund Balance – Governmental Fund Financial Statements

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

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance – Governmental Fund Financial Statements

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 35 days of the current average General Fund budgeted expenditures (including those amounts budgeted for member distributions) and a minimum committed fund balance of 125 days in the 125-day Contingency Fund. This Contingency Fund was amended during 2016, as it was previously a 90-day Contingency Fund. If the minimum unassigned fund balance of 35 days is not met, this will serve as an authorization “trigger” for the drawdown of the 125-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 assigned 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, 2017. Any reductions in funding could have a significant impact on the Library System.

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements
December 31, 2017

NOTE 2 CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

- United States Treasury bills.
- Short term obligations of the U.S. Government and Federal agencies.
- Insured savings and checking accounts and certificates of deposit in banks, savings and loan associations and credit unions.
- General obligations of the Federal Government, the Commonwealth of Pennsylvania or any state agency, or of any Pennsylvania political subdivision as long as the obligations are backed by the full faith and credit of the respective governmental entity.

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, 2017, the Library System had deposit balances in the amount of \$ 3,253,947, of which \$ 475,917 was insured by FDIC and \$ 2,778,030 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.

Included in the totals above is a certificate of deposit (CD) in the amount of \$ 1,016,570 which is held with F&M Trust. This CD had an original maturity date greater than 90 days and is classified as an investment in the financial statements, but considered a deposit for disclosure purposes.

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable as of December 31, 2017 are as follows:

Cumberland County Library Tax - 2017	\$ 48,737
Universal service fund credit	18,182
Member libraries	1,282
Other receivables	<u>7,988</u>
Receivables - full accrual basis	76,189
Less revenues not received in 75 days	<u>(32,568)</u>
Receivables - modified accrual basis	<u><u>\$ 43,621</u></u>

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements
December 31, 2017

NOTE 4 CAPITAL ASSETS

Capital asset activity for the System consists of the following for the year ended December 31, 2017:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities				
<i>Capital assets being depreciated:</i>				
Exhaustible collection				
Cost				
STAR book collection	\$ 45,583	\$ 6,438	\$ (4,795)	\$ 47,226
STAR AV collection	5,542	-	(2,379)	3,163
	<u>51,125</u>	<u>6,438</u>	<u>(7,174)</u>	<u>50,389</u>
Accumulated depreciation				
STAR book collection	(18,832)	(5,827)	4,795	(19,864)
STAR AV collection	(4,662)	(451)	2,379	(2,734)
	<u>(23,494)</u>	<u>(6,278)</u>	<u>7,174</u>	<u>(22,598)</u>
Exhaustible collection net of accumulated depreciation	<u>27,631</u>	<u>160</u>	<u>-</u>	<u>27,791</u>
Property and equipment				
Cost				
Leasehold improvements	996,026	-	(767,859)	228,167
Office equipment	37,860	-	-	37,860
Intralibrary network, equipment, hardware and software	791,526	143,129	(212,883)	721,772
	<u>1,825,412</u>	<u>143,129</u>	<u>(980,742)</u>	<u>987,799</u>
Accumulated depreciation				
Leasehold improvements	(199,204)	(49,801)	191,965	(57,040)
Office computers and equipment	(32,509)	(2,863)	-	(35,372)
Intralibrary network, equipment, hardware and software	(537,189)	(77,729)	176,778	(438,140)
	<u>(768,902)</u>	<u>(130,393)</u>	<u>368,743</u>	<u>(530,552)</u>
Property and equipment net of accumulated depreciation	<u>1,056,510</u>	<u>12,736</u>	<u>(611,999)</u>	<u>457,247</u>
Total capital assets being depreciated, net	<u>\$ 1,084,141</u>	<u>\$ 12,896</u>	<u>\$ (611,999)</u>	<u>\$ 485,038</u>

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements
December 31, 2017

NOTE 5 LONG-TERM LIABILITIES

The changes in long-term liabilities during the year ended December 31, 2017 were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Current	Long-Term
Governmental activities						
Capital lease payable	\$ 649,510	\$ -	\$ (649,510)	\$ -	\$ -	\$ -
Compensated absences	34,981	50,860	(50,942)	34,899	26,174	8,725
Total	<u>\$ 684,491</u>	<u>\$ 50,860</u>	<u>\$ (700,452)</u>	<u>\$ 34,899</u>	<u>\$ 26,174</u>	<u>\$ 8,725</u>

Capital Lease Payable

During 2012, Cumberland County agreed to renovate a building that would be occupied by both the County and the Library System. On April 15, 2013, the Library System entered into an agreement with Cumberland County for the relocation of its main office. 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 was to 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 original capital lease principal balance and corresponding leasehold improvement of \$ 767,859. The lease was considered capital due to the fact the expected lease term was 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 the time the lease was entered into, the possibility of cancellation was considered remote; therefore, the lease was capitalized. At the end of 2017, the Library System was notified that the lease agreement would be terminated as of December 31, 2019. Based on the cancellation of this lease, it was determined that the lease no longer met the criteria to be considered a capital lease; therefore, the remaining carrying value of the leasehold improvement asset (\$ 575,894) and this capital lease liability (\$ 617,808) were written off with the difference recorded as gain on cancellation of capital lease (\$ 41,914). The capital assets related to the renovation to the building paid for by the Library System that were not financed through the lease will remain on the capital asset listing and depreciated through the end of the lease term (2019).

The Library System will still be utilizing the building and will pay the County \$ 51,770 for annual rent during 2018 and 2019. This will be classified as operating lease expense during these years.

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements
December 31, 2017

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. 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, collection services coordinator, information technology coordinator, public service and training coordinator, and technical support specialist II 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 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.

125-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 125-Day Contingency Fund shall be replenished. The 125-Day Contingency is based on 125 days of average General Fund budgeted expenditures, including those amounts budgeted for member library distributions. Any income derived from the 125-Day Contingency may be budgeted for library system operating purposes as approved by the Library System Board.

Technology

The purpose is for future upgrades, enhancements or replacements of the Library System's county-wide hardware and software resources. 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 7 RELATED PARTY TRANSACTIONS

While the Library System is not considered a component unit of the County of Cumberland, the Library System employees are employed by Cumberland County. The County provides payroll and benefits services on behalf of Library System staff, which totaled \$ 790,044 for 2017, for which the Library System reimbursed the County. There is \$ 95,565 due to the County for payroll related expenditures at December 31, 2017.

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements
December 31, 2017

NOTE 7 RELATED PARTY TRANSACTIONS (CONTINUED)

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 County Pension Law, Act 96 of 1971, of the General Assembly of the Commonwealth of Pennsylvania, as amended (The Act). 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 historical trend information is maintained by the County.

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

NOTE 8 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 9 COMMITMENTS AND CONTINGENCIES

The Library System signed a seven-year contract in 2013 for software, services, hosting and all server related functions totaling \$ 554,144. Total costs incurred as of December 31, 2017 totaled \$ 336,214, leaving \$ 217,930 that will be paid 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, 2017, 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
Budgetary Comparison Schedule - General Fund (Unaudited)
Year Ended December 31, 2017

	Budget		General Fund Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Program revenues				
Operating grants				
State public library subsidy	\$ 1,058,037	\$ 1,058,037	\$ 1,058,037	\$ -
LSTA grant	50,000	50,000	41,358	(8,642)
Other local grants	3,500	3,500	11,800	8,300
Other state and county revenue	500	500	686	186
Total program revenues	<u>1,112,037</u>	<u>1,112,037</u>	<u>1,111,881</u>	<u>(156)</u>
General revenues				
Cumberland County tax revenue	3,905,412	3,905,412	3,916,120	10,708
Interest	19,636	19,636	28,949	9,313
Donations	1,000	1,000	4,322	3,322
Fines	18,000	18,000	19,557	1,557
Miscellaneous	100	100	4	(96)
Total general revenues	<u>3,944,148</u>	<u>3,944,148</u>	<u>3,968,952</u>	<u>24,804</u>
Total revenues	<u>5,056,185</u>	<u>5,056,185</u>	<u>5,080,833</u>	<u>24,648</u>
Program expenditures				
Personnel	902,145	902,145	790,044	112,101
Collection	240,364	240,364	245,345	(4,981)
Other operating expenditures	620,682	554,982	435,322	119,660
Debt service				
Principal	31,702	31,702	31,702	-
Interest expense	20,068	20,068	20,068	-
Member library distributions				
State public library subsidy	700,603	700,603	700,603	-
Cumberland County tax	2,741,725	2,741,725	2,741,724	1
Health subsidy distribution	62,750	62,750	47,467	15,283
Online fines and fees	17,659	17,659	15,733	1,926
Total expenditures	<u>5,337,698</u>	<u>5,271,998</u>	<u>5,028,008</u>	<u>243,990</u>
Change in fund balance	<u>\$ (281,513)</u>	<u>\$ (215,813)</u>	<u>52,825</u>	<u>\$ 268,638</u>
Fund balance - beginning of year			<u>3,091,393</u>	
Fund balance - end of year			<u>\$ 3,144,218</u>	

OTHER SUPPLEMENTARY INFORMATION

CUMBERLAND COUNTY LIBRARY SYSTEM
Detailed Budgetary Comparison Schedule - General Fund
Year Ended December 31, 2017

	Final Budget	Actual	Variance
Revenues			
Program revenues			
State public library subsidy	\$ 1,058,037	\$ 1,058,037	\$ -
LSTA grant	50,000	41,358	(8,642)
Other grants	3,500	11,800	8,300
Other state and county revenue	500	686	186
Total program revenues	<u>1,112,037</u>	<u>1,111,881</u>	<u>(156)</u>
General revenues			
Cumberland county tax revenue	3,905,412	3,916,120	10,708
Interest	19,636	28,949	9,313
Donations	1,000	4,322	3,322
Fines	18,000	19,557	1,557
Miscellaneous	100	4	(96)
Total general revenues	<u>3,944,148</u>	<u>3,968,952</u>	<u>24,804</u>
Total revenues	<u>5,056,185</u>	<u>5,080,833</u>	<u>24,648</u>
Expenditures			
Personnel			
Wages	699,822	617,361	82,461
Benefits			
FICA-employer	53,536	47,276	6,260
Unemployment-employer	855	1,658	(803)
Worker's compensation	393	274	119
Health insurance	84,309	76,334	7,975
Life and Disability insurance	5,845	3,867	1,978
Retirement	57,385	43,274	14,111
Total personnel expenditures	<u>902,145</u>	<u>790,044</u>	<u>112,101</u>
Collection			
Books	5,500	6,490	(990)
Periodicals and newspapers	936	959	(23)
Audio Visual	-	941	(941)
Electronic information and internet services	168,156	169,382	(1,226)
Library supplies	65,772	67,573	(1,801)
Total collection expenditures	<u>\$ 240,364</u>	<u>\$ 245,345</u>	<u>\$ (4,981)</u>

CUMBERLAND COUNTY LIBRARY SYSTEM
Detailed Budgetary Comparison Schedule - General Fund (Continued)
Year Ended December 31, 2017

	Final Budget	Actual	Variance
Expenditures (Continued)			
Other operating expenditures			
Office			
Office supplies	\$ 2,500	\$ 3,283	\$ (783)
Furniture and Equipment	3,500	2,780	720
Postage and delivery	33,000	22,536	10,464
Printing	5,000	4,778	222
Photocopier supplies & service	5,356	2,348	3,008
Computer equipment			
Hardware	79,190	65,498	13,692
Software	121,042	110,080	10,962
Office hardware and software maintenance	950	-	950
Automation hardware maintenance	52,100	56,202	(4,102)
Automation software maintenance	25,931	20,607	5,324
Occupancy			
Building maintenance	21,887	22,260	(373)
Utilities	19,420	15,652	3,768
Insurance	1,090	1,146	(56)
Telecommunications			
General office	3,700	2,237	1,463
Automation system	81,122	46,420	34,702
Public relations	5,405	2,387	3,018
Programming			
Summer reading	2,750	2,605	145
Trustee	750	-	750
Staff	10,000	226	9,774
Movie licensing USA	2,800	3,040	(240)
One Book One Community	504	588	(84)
Contracted services			
Database	7,000	2,736	4,264
Consultant	15,000	-	15,000
Audit and Accounting	15,885	15,372	513
Other miscellaneous operating			
Dues and memberships	5,615	5,526	89
Cost of raising money and miscellaneous	6,485	7,322	(837)
Staff travel and training			
Travel	6,000	5,070	930
Continuing education	21,000	14,623	6,377
Total other operating expenditures	<u>554,982</u>	<u>435,322</u>	<u>119,660</u>
Debt service			
Principal	31,702	31,702	-
Interest expense	20,068	20,068	-
Total debt service	<u>\$ 51,770</u>	<u>\$ 51,770</u>	<u>\$ -</u>

CUMBERLAND COUNTY LIBRARY SYSTEM
Detailed Budgetary Comparison Schedule - General Fund (Continued)
Year Ended December 31, 2017

	Final Budget	Actual	Variance
Expenditures (Continued)			
Member library distributions			
State public library subsidy			
Amelia S. Givin	\$ 45,971	\$ 45,971	\$ -
Bosler	140,052	140,052	-
Cleve J. Fredrickson	206,648	206,648	-
John Graham	29,927	29,927	-
Joseph T. Simpson	136,834	136,834	-
New Cumberland	61,338	61,338	-
Shippensburg	79,833	79,833	-
Total state public library subsidy	<u>700,603</u>	<u>700,603</u>	<u>-</u>
Cumberland County tax			
Amelia S. Givin	179,904	179,904	-
Bosler	548,076	548,076	-
Cleve J. Fredrickson	808,694	808,692	2
John Graham	117,113	117,120	(7)
Joseph T. Simpson	535,483	535,476	7
New Cumberland	240,041	240,036	5
Shippensburg	312,414	312,420	(6)
Total Cumberland County tax	<u>2,741,725</u>	<u>2,741,724</u>	<u>1</u>
Health subsidy distribution			
Amelia S. Givin	3,500	3,469	31
Bosler	18,200	9,655	8,545
Cleve J. Fredrickson	12,500	11,397	1,103
John Graham	1,750	2,602	(852)
Joseph T. Simpson	12,500	8,779	3,721
New Cumberland	5,300	5,204	96
Shippensburg	9,000	6,361	2,639
Total health subsidy distribution	<u>\$ 62,750</u>	<u>\$ 47,467</u>	<u>\$ 15,283</u>
Online fines and fees			
Amelia S. Givin	\$ 632	\$ 465	\$ 167
Bosler	3,434	2,873	561
Cleve J. Fredrickson	7,666	6,242	1,424
John Graham	205	343	(138)
Joseph T. Simpson	2,324	3,115	(791)
New Cumberland	1,906	1,320	586
Shippensburg	1,492	1,375	117
Total online fines and fees	<u>17,659</u>	<u>15,733</u>	<u>1,926</u>
Total expenditures	<u>\$ 5,271,998</u>	<u>\$ 5,028,008</u>	<u>\$ 243,990</u>