

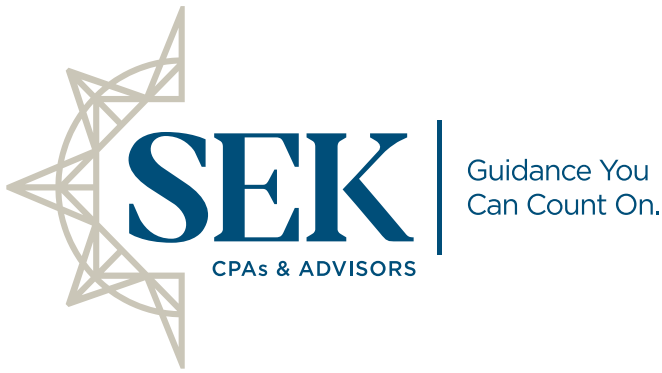
Audited
Financial
Statements

December 31,
2018

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, 2018, 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, 2018, 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 2017 financial statements, and we have expressed unmodified audit opinions on those audited financial statements in our report dated June 14, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 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 13, and budgetary comparison schedule – general fund on page 27 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.

Smith Elliott Kearns Company, LLC*

Chambersburg, Pennsylvania
June 4, 2019

CUMBERLAND COUNTY LIBRARY SYSTEM

Management's Discussion and Analysis

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, 2018. 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 2018 Activities

In 2018, the library system headquarters' significant initiatives included:

1. **Circulation of Materials:** Cardholders borrowed more than 2.28 million items in 2018 from Cumberland County's public libraries.

CUMBERLAND COUNTY LIBRARY SYSTEM

Management's Discussion and Analysis

- 2. Reading Support for Young Children:** In 2018, children borrowed 908,381 items from Cumberland County's libraries. This was an average of 20 items for every child in the county. In addition, over 144,500 kids attended regular infant, toddler and preschool Storytime classes held throughout the year at libraries and 7,556 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:

- 80% of children surveyed said that the summer reading program allowed them to learn something new.
 - 94% of children said that as a result of the program they became better readers.
 - 99% of children said that they plan to visit the library again once school starts.
 - 99% 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 111,468 times. In addition, citizens used the library system's Wi-Fi services 86,746 times. This reflects a continued need for public internet access.
 - 4. Safe, Welcoming Gathering Spaces:** Over 1.17 million people visited Cumberland County's libraries in 2018. (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 2018 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 2018, the network was comprised of 356 computers, including 23 servers, 151 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 128 computers at Bosler Library, to 9 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 2018, the system's Public Internet computers were used 111,470 times and the library system's web site was visited more than 1,174,000 times —a decrease of 7% Public Internet use and a 39% increase in visits (respectively) from the prior year.

CUMBERLAND COUNTY LIBRARY SYSTEM

Management's Discussion and Analysis

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 2018, 23,434 items were added to the Library Systems collections – a 7% 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 2018, the number of library card holders (107,752) increased 5% 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 2018, 268 staff recorded 1,073 learning hours. This was a 90% increase from the prior year due to a fully staffed department.
6. **Fundraising Services:** A full time Development Coordinator was hired in January 2018 to facilitate funding to the Foundation, and support fundraising for the member libraries. A total of 106 major grants were researched, 35 of which were a match, and full proposals were written and submitted. Of those, 7 were funded for a total of \$ 43,900. In addition, the coordinator facilitated an increase in EITC contributions for the Summer Learning Program of \$ 19,500, an increase of \$ 13,500 compared to 2017. The development coordinator also created and presented 4 fundraising workshops to development staff at member libraries.
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 2018, the number of items borrowed (9,364 items) by homebound individuals, remaining consistent with the previous year.

CUMBERLAND COUNTY LIBRARY SYSTEM
Management's Discussion and Analysis

2) COSTS BY KEY SERVICE AREA FINANCIAL DISTRIBUTION:

The library systems costs are distributed based on the expenses related to the service provided. During 2018, the Development position was filled, causing an increase in costs compared to 2017. A full time Collections staff position was eliminated in 2018, reducing cost. A large Computer project in 2017 reflected a decrease in 2018 costs. Cost for Training and Fund Raising increased due to new staff in 2018.

| Library System Office Key Service Areas | Description | 2018 | % of Exp. | 2017 | % 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. | 610,634 | 40% | 631,630 | 41% | -3% | 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. | 358,013 | 24% | 424,347 | 28% | -16% | 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. | 237,096 | 16% | 270,990 | 18% | -13% | 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. | 111,465 | 7% | 110,004 | 7% | 1% | 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. | 75,075 | 5% | 30,090 | 2% | 150% | Staff, professional collection and training materials, staff development and workshop fees |
| Fundraising Services | Provides support for library fund raising and development | 69,083 | 5% | 6,411 | 0% | 978% | Staff, dues, mileage, software |
| Homebound and Nursing Home Services | Provides free selection and delivery of library materials to about homebound Cumberland County seniors and senior facilities. | 46,173 | 3% | 50,795 | 3% | -9% | Staff, large print and audio library materials |
| Subtotal System Office Services | | 1,507,538 | 100% | 1,524,268 | 100% | 1008% | |

CUMBERLAND COUNTY LIBRARY SYSTEM

Management's Discussion and Analysis

3) FINANCIAL HIGHLIGHTS:

In 2018, the library system's total revenues were \$ 5,559,662 which is an increase of 9.38% from prior year. During June of 2018, a bequest from the Charles Curtis Estate of over \$ 320,000, and an investment in a PLGIT Money Market fund at a higher interest rate are the majority of this increase. Total expenses were \$ 5,211,564, an increase of \$ 228,236 or 4.58% from the prior year. The change in net position was \$ 348,098 as compared to \$ 99,691 for the prior budget year.

The fund balance as of December 31, 2018 is \$ 3,624,377 and was comprised of five 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 \$ 1,590,429:** 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 \$ 10,910:** This fund represents a contractual service prepayment.
5. **Restricted fund balance of \$ 5,000:** This fund represents a STAR grant.

CUMBERLAND COUNTY LIBRARY SYSTEM
Management's Discussion and Analysis

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;
 - 9. Commitments and contingencies; and
 - 10. Subsequent Event.
- 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 | |
|---|---------------------|---------------------|-------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Assets | | | | |
| Current Assets | \$ 3,848,487 | \$ 3,316,726 | 91% | 87% |
| Noncurrent assets | 360,824 | 485,038 | 9% | 13% |
| Total Assets | \$ 4,209,311 | \$ 3,801,764 | 100% | 100% |
| Liabilities | | | | |
| Current liabilities | \$ 222,890 | \$ 166,114 | 95% | 21% |
| Long-term liabilities | 11,398 | 8,725 | 5% | 79% |
| Total Liabilities | \$ 234,288 | \$ 174,839 | 100% | 100% |
| Net Position | | | | |
| Net investment in capital assets | 360,824 | 470,659 | 9% | 13% |
| Unrestricted | 3,614,199 | 3,156,266 | 91% | 87% |
| Total Net Position | \$ 3,975,023 | \$ 3,626,925 | 100% | 100% |
| Total Liabilities and Net Position | \$ 4,209,311 | \$ 3,801,764 | | |

CUMBERLAND COUNTY LIBRARY SYSTEM
Management's Discussion and Analysis

| Statement of Activities | Amount | | Percentage | |
|-------------------------------|-------------------|------------------|-------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues | | | | |
| Program Revenues | | | | |
| State Funds | \$ 1,058,037 | \$ 1,058,037 | 19% | 21% |
| Grants | 104,700 | 53,158 | 2% | 1% |
| Other program funds | 398 | 686 | 0% | 0% |
| Total Program Revenues | 1,163,135 | 1,111,881 | 25% | 22% |
| General Revenues | | | | |
| County tax revenue | 3,992,078 | 3,912,497 | 72% | 77% |
| Interest | 59,829 | 28,949 | 1% | 1% |
| Donations | 323,911 | 4,322 | 6% | 0% |
| Fines (Online Payments) | 20,690 | 19,557 | 0% | 0% |
| Miscellaneous and other | 19 | 5,813 | 0% | 0% |
| Total General Revenues | 4,396,527 | 3,971,138 | 75% | 78% |
| Total Revenues | 5,559,662 | 5,083,019 | 100% | 100% |
| Program Expenses | | | | |
| Wages and benefits | 870,317 | 789,962 | 17% | 16% |
| Collection | 185,203 | 230,340 | 4% | 5% |
| Debt service | - | 20,068 | 0% | 0% |
| Other operating | 586,924 | 437,431 | 11% | 9% |
| Member library distributions | 3,569,120 | 3,505,527 | 68% | 70% |
| Total expenses | 5,211,564 | 4,983,328 | 100% | 100% |
| Change in Net Position | \$ 348,098 | \$ 99,691 | | |

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, 2018, its assets stood at \$ 4,209,311 compared to the prior year's \$ 3,801,764. The increase of assets was mainly due to the receipt of an estate bequest.

The library system headquarters completed the year with an Unassigned Fund Balance of \$ 1,590,429. This is 31% of the system's total operating expenditures or 3.8 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 \$ 846,110 in 2018.

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.

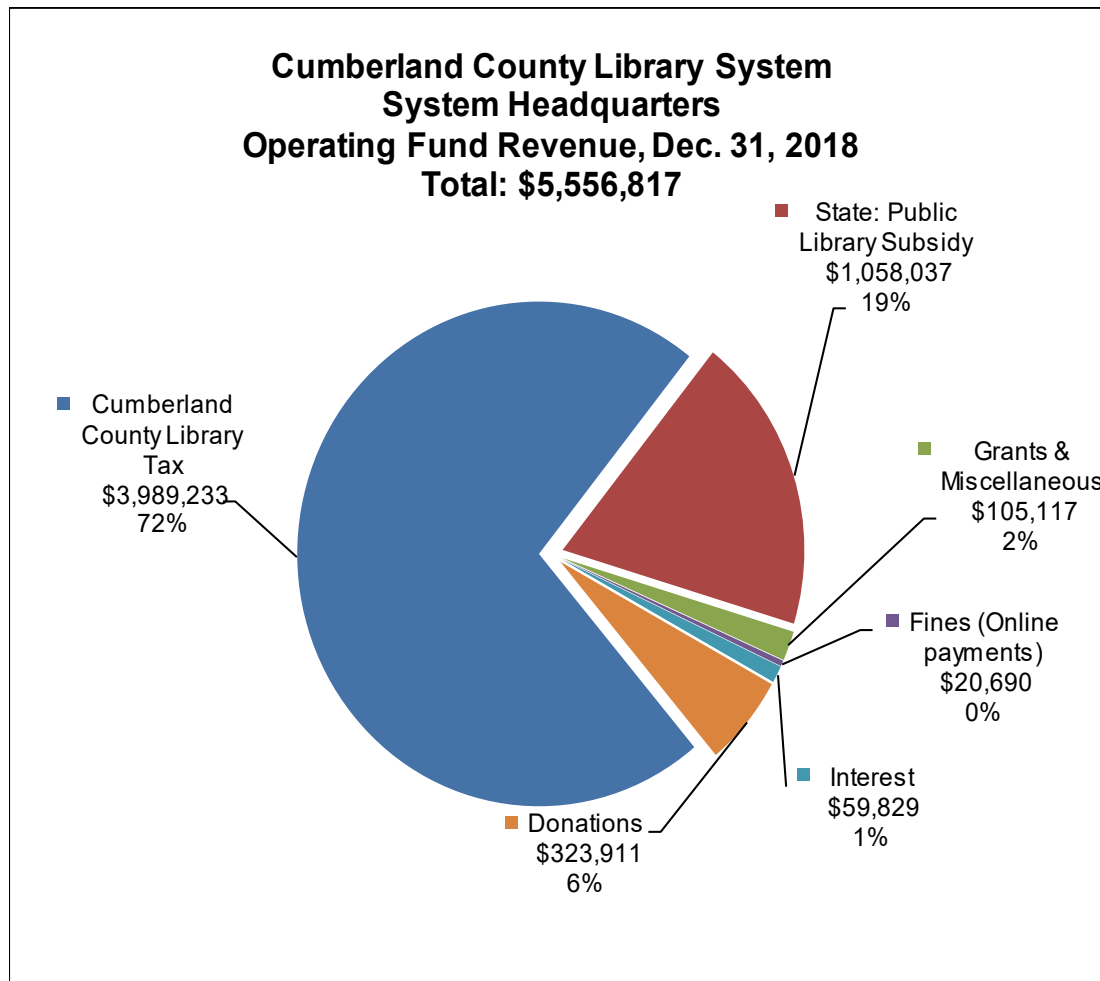
¹ Gauthier, Stephen J., "GFOA Updates Best Practice on Fund Balance," *Government Finance Review*. December 2009, page 69.

CUMBERLAND COUNTY LIBRARY SYSTEM Management's Discussion and Analysis

BUDGETARY ANALYSIS:

Revenues

Overall, the library system's total revenues were \$ 5,556,817, an increase of \$ 475,984 compared to the prior year. This increase was the result of an estate bequest receipt and an increase in Library tax payments received from the County. In addition, an increase in interest revenue of \$ 30,880, from investment change to a PLGIT account added to the increase in revenue.



CUMBERLAND COUNTY LIBRARY SYSTEM

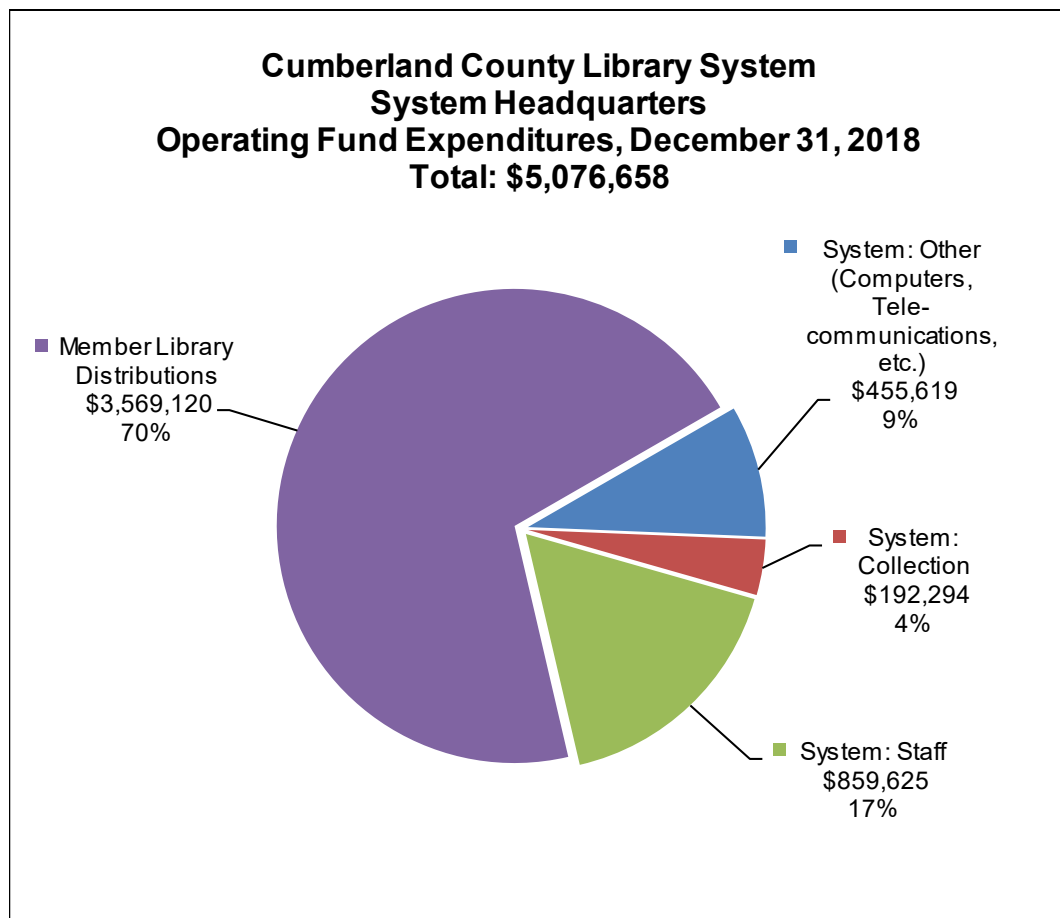
Management's Discussion and Analysis

Expenditures

Overall, the library system's total expenditures of \$ 5,076,658 increased 0.1% or \$ 48,650 from the prior year. While wages and benefits increased due to personnel changes; collection decreased to offset this change. In addition, member library distributions of \$ 3,569,120, increased by \$ 63,593.

The Library System's expenditures were \$ 304,600 less than budgeted. This was due to:

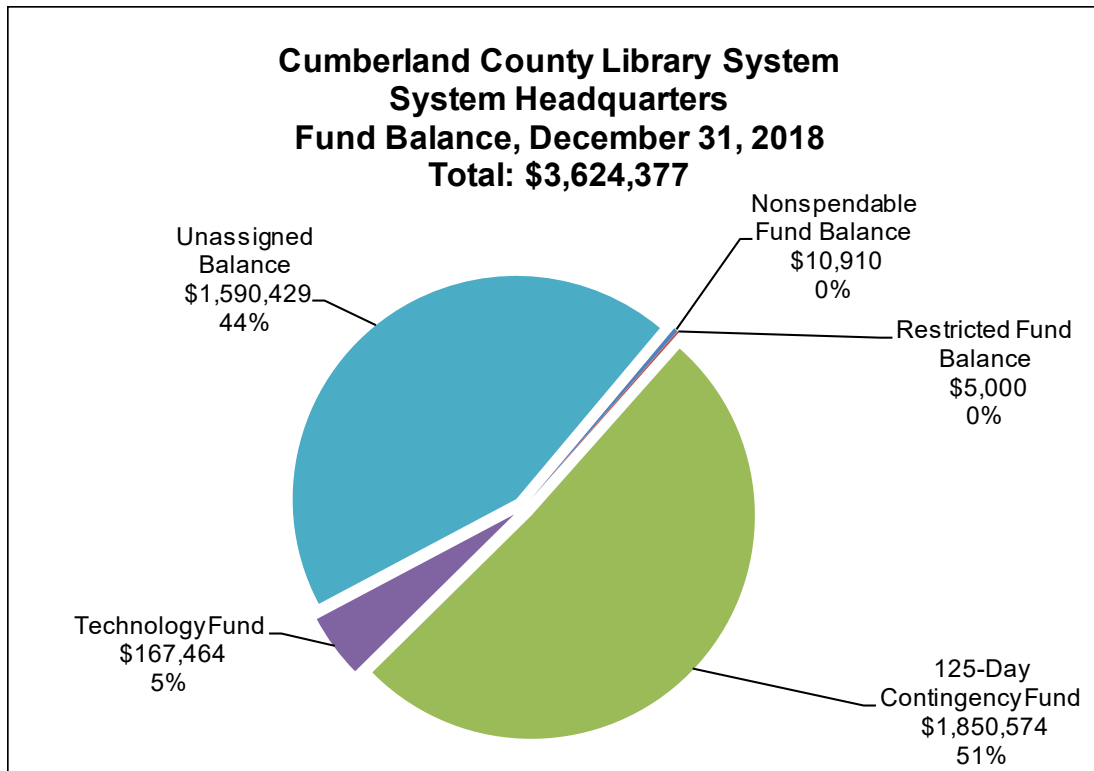
- Personnel expenditures were \$ 79,416 under budget due to changes in collection services staff, and the elimination of one part time position.
- Other operating expenditures were \$ 215,132 under budget. Cost for computer equipment and automation software maintenance were \$ 107,045 under budget. For the Self Check stations project, \$ 18,860 was budgeted for maintenance, and \$ 33,000 was budgeted for an upgrade to Sierra; these costs came in lower than expected. In addition, purchases of computers and mobile devices budgeted at \$ 31,600 were not incurred. An Erate credit for router maintenance of \$ 14,703 also added to this difference. A decrease of \$ 16,060 in continuing education, added to the under budgeted total.



CUMBERLAND COUNTY LIBRARY SYSTEM Management's Discussion and Analysis

Fund Balance

- The Library System Board returned a transfer of \$ 227,646 to the 125 Contingency Fund that was originally transferred in January, to maintain the balance of \$ 1,850,574.
- The Library System carried over a \$ 1,590,429 Unassigned Fund Balance for its 2019 operating budget cash flow needs.
- The Library System also carried over \$ 10,910 non-spendable funds, and \$ 5,000 restricted funds.



CUMBERLAND COUNTY LIBRARY SYSTEM
Management's Discussion and Analysis

7) CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY:

Total Capital Assets (net of depreciation) were \$ 360,824 at December 31, 2018. This was a \$ 124,214 decrease in total capital assets.

| Capital Assets, Dec. 31, 2018 (net of depreciation) | 2018 | 2017 | Change |
|--|-------------|-------------|---------------|
| Exhaustible collection | \$ 28,972 | \$ 27,791 | \$ 1,181 |
| Property and equipment | 331,852 | 457,247 | (125,395) |
| Total Capital Assets | 360,824 | 485,038 | (124,214) |

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. A taxpayer base increase yielded \$ 79,581 of additional library tax support. The taxpayer base for Cumberland County is expected to grow less than 1% in 2019.

Public Library Subsidy revenue from the Commonwealth of Pennsylvania increased 1.8% in 2016 and was level-funded in 2018. No increase for 2019 is anticipated.

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 2018, the Foundation received \$ 43,758 in gifts, donations and grants. This \$ 29,186 increase from 2017 was due to approval for EITC funding, and a \$ 15,986 increase in unrestricted gifts and donations to the Foundation. Donations of \$ 24,500 in Educational Improvement Tax Credits were received in 2018. 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 400 Bent Creek Boulevard, Suite 150, Mechanicsburg, PA 17050 or by phone at (717) 240-6175.

CUMBERLAND COUNTY LIBRARY SYSTEM
Statement of Net Position and Governmental Fund Balance Sheet
December 31, 2018
(With Summarized Financial Information for December 31, 2017)

| | General Fund | Adjustments | Governmental Activities Statement of Net Position | |
|--|---------------------|--------------------|--|---------------------|
| | | | 2018 | 2017 |
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 3,747,964 | \$ - | \$ 3,747,964 | \$ 2,211,051 |
| Investments | - | - | - | 1,016,570 |
| Accounts receivable | 54,200 | 35,413 | 89,613 | 76,189 |
| Prepaid items | <u>10,910</u> | <u>-</u> | <u>10,910</u> | <u>12,916</u> |
| Total current assets | <u>3,813,074</u> | <u>35,413</u> | <u>3,848,487</u> | <u>3,316,726</u> |
| Noncurrent assets | | | | |
| Exhaustible collection (net of accumulated depreciation) | - | 28,972 | 28,972 | 27,791 |
| Property and equipment (net of accumulated depreciation) | <u>-</u> | <u>331,852</u> | <u>331,852</u> | <u>457,247</u> |
| Total noncurrent assets | <u>-</u> | <u>360,824</u> | <u>360,824</u> | <u>485,038</u> |
| Total assets | <u>\$ 3,813,074</u> | <u>\$ 396,237</u> | <u>\$ 4,209,311</u> | <u>\$ 3,801,764</u> |
| Liabilities | | | | |
| Current liabilities | | | | |
| Accounts payable | \$ 106,979 | \$ - | \$ 106,979 | \$ 43,459 |
| Accrued payroll and benefits | 81,718 | - | 81,718 | 96,481 |
| Compensated absences | <u>-</u> | <u>34,193</u> | <u>34,193</u> | <u>26,174</u> |
| Total current liabilities | <u>188,697</u> | <u>34,193</u> | <u>222,890</u> | <u>166,114</u> |
| Long-term liabilities | | | | |
| Compensated absences | <u>-</u> | <u>11,398</u> | <u>11,398</u> | <u>8,725</u> |
| Total long-term liabilities | <u>-</u> | <u>11,398</u> | <u>11,398</u> | <u>8,725</u> |
| Total liabilities | <u>188,697</u> | <u>45,591</u> | <u>234,288</u> | <u>174,839</u> |
| Fund balance/net position | | | | |
| Fund balance | | | | |
| Nonspendable fund balance | | | | |
| Prepaid items | 10,910 | (10,910) | - | - |
| Restricted fund balance | | | | |
| STAR program | 5,000 | (5,000) | - | - |
| Committed fund balance | | | | |
| 125-day contingency | 1,850,574 | (1,850,574) | - | - |
| Technology | 167,464 | (167,464) | - | - |
| Unassigned fund balance | <u>1,590,429</u> | <u>(1,590,429)</u> | <u>-</u> | <u>-</u> |
| Total fund balance | <u>3,624,377</u> | <u>(3,624,377)</u> | <u>-</u> | <u>-</u> |
| Net position | | | | |
| Net investment in capital assets | - | 360,824 | 360,824 | 470,659 |
| Unrestricted | <u>-</u> | <u>3,614,199</u> | <u>3,614,199</u> | <u>3,156,266</u> |
| Total net position | <u>-</u> | <u>3,975,023</u> | <u>3,975,023</u> | <u>3,626,925</u> |
| Total liabilities and fund balance/net position | <u>\$ 3,813,074</u> | <u>\$ 396,237</u> | <u>\$ 4,209,311</u> | <u>\$ 3,801,764</u> |

CUMBERLAND COUNTY LIBRARY SYSTEM
Statement of Activities and Governmental Fund Revenues, Expenditures, and
Changes in Fund Balance
Year Ended December 31, 2018
(With Summarized Financial Information for the Year Ended December 31, 2017)

| | General Fund | Adjustments | Governmental Activities Statement of Activities | |
|--|---------------------|-------------------|--|---------------------|
| | | | 2018 | 2017 |
| Program expenditures/expenses | | | | |
| Personnel | \$ 859,625 | \$ 10,692 | \$ 870,317 | \$ 789,962 |
| Collection | 192,294 | (7,091) | 185,203 | 230,340 |
| Other operating expenditures | 455,619 | 131,305 | 586,924 | 437,431 |
| Debt service | | | | |
| Principal | - | - | - | - |
| Interest expense | - | - | - | 20,068 |
| Member library distributions | | | | |
| State public library subsidy | 700,602 | - | 700,602 | 700,603 |
| Cumberland County tax | 2,813,400 | - | 2,813,400 | 2,741,724 |
| MOU Conditional Grant distribution | 38,750 | - | 38,750 | 47,467 |
| Online fines and fees | 16,368 | - | 16,368 | 15,733 |
| Total expenditures/expenses | <u>5,076,658</u> | <u>134,906</u> | <u>5,211,564</u> | <u>4,983,328</u> |
| Program revenues | | | | |
| Operating grants | | | | |
| State public library subsidy | 1,058,037 | - | 1,058,037 | 1,058,037 |
| LSTA grant | - | - | - | 41,358 |
| Other grants | 104,700 | - | 104,700 | 11,800 |
| Other state and county revenue | 398 | - | 398 | 686 |
| Total program revenues | <u>1,163,135</u> | <u>-</u> | <u>1,163,135</u> | <u>1,111,881</u> |
| Net program revenue | | | <u>(4,048,429)</u> | <u>(3,871,447)</u> |
| General revenues | | | | |
| Cumberland County tax revenue | 3,989,233 | 2,845 | 3,992,078 | 3,912,497 |
| Interest | 59,829 | - | 59,829 | 28,949 |
| Donations | 323,911 | - | 323,911 | 4,322 |
| Fines | 20,690 | - | 20,690 | 19,557 |
| Miscellaneous | 19 | - | 19 | 4 |
| Gain (loss) on sale of capital assets | - | - | - | (36,105) |
| Gain on cancellation of capital lease | - | - | - | 41,914 |
| Total general revenues | <u>4,393,682</u> | <u>2,845</u> | <u>4,396,527</u> | <u>3,971,138</u> |
| Revenues over (under) expenditures/ change in fund balance/net position | 480,159 | (132,061) | 348,098 | 99,691 |
| Fund balance/net position - beginning of year | <u>3,144,218</u> | <u>482,707</u> | <u>3,626,925</u> | <u>3,527,234</u> |
| Fund balance/net position - end of year | <u>\$ 3,624,377</u> | <u>\$ 350,646</u> | <u>\$ 3,975,023</u> | <u>\$ 3,626,925</u> |

CUMBERLAND COUNTY LIBRARY SYSTEM

Notes to Financial Statements

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 balance, 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

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, 2018 |
|--|-----------|--------------------------|
| Fund balance, Governmental Funds | | \$ 3,624,377 |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in the general fund. | | |
| Cost of assets | 1,077,504 | |
| Accumulated depreciation | (716,680) | |
| | | 360,824 |
| 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. | | 35,413 |
| 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 | (45,591) | |
| | | (45,591) |
| Net position, Governmental Activities | | \$ 3,975,023 |

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements

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, 2018 |
|--|--------------------------|
| Change in fund balance, Governmental Funds | \$ 480,159 |
| <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 | 58,425 |
| Depreciation expense | (182,639) |
| | (124,214) |
| <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> | |
| | 2,845 |
| <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> | |
| | (10,692) |
| Change in net position, Governmental Activities | \$ 348,098 |

Budgets

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

Cash and Cash Equivalents and Investments

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

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

Accounts Receivable

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

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

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2018 is for the STAR program.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance – Governmental Fund Financial Statements

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

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

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

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

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

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

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.

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 91% of its total program and general revenues from the Commonwealth of Pennsylvania and Cumberland County for the year ended December 31, 2018. Any reductions in funding could have a significant impact on the Library System.

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.

Deposits - Custodial Credit Risk

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, 2018, the Library System had deposit balances in the amount of \$ 2,749,564, of which \$ 406,501 was insured by FDIC and \$ 2,343,063 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.

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements

NOTE 2 CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Investments

As of December 31, 2018, the Library System had an investment with a fair value of \$ 1,012,327 held in a PLGIT – Prime account, with a credit quality rating of AAAM. This investment is considered a cash equivalent for financial reporting purposes, as it is a variable investment portfolio.

Credit Risk – Investments

The Library System has no investment policy that would limit its investment choices to certain credit ratings.

Included in cash and cash equivalents in the financial statements are pooled investments in the Pennsylvania Local Government Investment Trust (PLGIT) – Prime. These funds are basically mutual funds that consist of short-term money market instruments and seek to maintain a constant net asset value of \$ 1 per share.

Policies Followed at PLGIT

Regulatory Oversight

The operation of PLGIT is governed by an eleven-member Board of Trustees. The Trustees must be employees or elected officials of a local government or school district and are elected at the annual meeting of investors. The Trustees have exclusive and absolute control over the affairs of the Trust and its' assets, subject to rights of the Investors, as provided in the Declaration of Trust.

PLGIT is not registered with the Securities and Exchange Commission (SEC); however, PLGIT follows investment procedures similar to those followed by SEC registered money market funds.

Valuation of Investments

Portfolios are valued using the net asset value per share. The net asset value per share is computed by dividing the total value of the securities and other assets of the portfolio less liabilities, by the outstanding shares of the portfolio.

The Library System has no limitations or restrictions on withdrawals on accounts held at PLGIT.

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable as of December 31, 2018 are as follows:

| | | |
|---------------------------------------|----|---------------|
| Cumberland County Library Tax - 2018 | \$ | 76,646 |
| Member libraries | | 9,990 |
| Other receivables | | 2,977 |
| Receivables - full accrual basis | | 89,613 |
| Less revenues not received in 75 days | | (35,413) |
| Receivables - modified accrual basis | \$ | <u>54,200</u> |

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements

NOTE 4 CAPITAL ASSETS

Capital asset activity for the System consists of the following for the year ended December 31, 2018:

| | Beginning Balance, as reclassified | Additions | Retirements | Ending Balance |
|---|--|---------------------|-----------------|-------------------|
| Governmental activities | | | | |
| <i>Capital assets being depreciated:</i> | | | | |
| Exhaustible collection | | | | |
| Cost | | | | |
| STAR book collection | \$ 47,226 | \$ 7,091 | \$ (7,857) | \$ 46,460 |
| STAR AV collection | 3,163 | - | (1,163) | 2,000 |
| | <u>50,389</u> | <u>7,091</u> | <u>(9,020)</u> | <u>48,460</u> |
| Accumulated depreciation | | | | |
| STAR book collection | (19,864) | (5,624) | 7,857 | (17,631) |
| STAR AV collection | (2,734) | (286) | 1,163 | (1,857) |
| | <u>(22,598)</u> | <u>(5,910)</u> | <u>9,020</u> | <u>(19,488)</u> |
| Exhaustible collection net of accumulated depreciation | <u>27,791</u> | <u>1,181</u> | <u>-</u> | <u>28,972</u> |
| Property and equipment | | | | |
| Cost | | | | |
| Leasehold improvements | 215,107 | - | - | 215,107 |
| Office equipment | 50,920 | - | (8,839) | 42,081 |
| Intralibrary network, equipment, hardware and software | 721,772 | 51,334 | (1,250) | 771,856 |
| | <u>987,799</u> | <u>51,334</u> | <u>(10,089)</u> | <u>1,029,044</u> |
| Accumulated depreciation | | | | |
| Leasehold improvements | (53,775) | (80,665) | - | (134,440) |
| Office computers and equipment | (38,637) | (2,845) | 8,839 | (32,643) |
| Intralibrary network, equipment, hardware and software | (438,140) | (93,219) | 1,250 | (530,109) |
| | <u>(530,552)</u> | <u>(176,729)</u> | <u>10,089</u> | <u>(697,192)</u> |
| Property and equipment net of accumulated depreciation | <u>457,247</u> | <u>(125,395)</u> | <u>-</u> | <u>331,852</u> |
| Total capital assets being depreciated, net | <u>\$ 485,038</u> | <u>\$ (124,214)</u> | <u>\$ -</u> | <u>\$ 360,824</u> |

Certain reclassifications have been made to the prior year leasehold improvements and office equipment capital asset categories in order to remain consistent with current year classifications.

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements

NOTE 5 LONG-TERM LIABILITIES

The changes in long-term liabilities during the year ended December 31, 2018 were as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance | Current | Long-Term |
|-------------------------|----------------------|------------------|--------------------|-------------------|------------------|------------------|
| Governmental activities | | | | | | |
| Compensated absences | \$ 34,899 | \$ 43,673 | \$ (32,981) | \$ 45,591 | \$ 34,193 | \$ 11,398 |
| Total | <u>\$ 34,899</u> | <u>\$ 43,673</u> | <u>\$ (32,981)</u> | <u>\$ 45,591</u> | <u>\$ 34,193</u> | <u>\$ 11,398</u> |

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 not accumulate compensatory or sick time. The County renders a monthly bill for wages, benefits and related expenses.

NOTE 6 FUND BALANCE

The Library System has \$ 5,000 of restricted fund balance from an unspent STAR grant as of December 31, 2018.

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.

CUMBERLAND COUNTY LIBRARY SYSTEM

Notes to Financial Statements

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 \$ 859,625 for 2018, for which the Library System reimbursed the County. There is \$ 82,044 due to the County for payroll related expenditures at December 31, 2018.

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 also 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 contract in 2013 for software, services, hosting and all server related functions totaling \$ 621,268. Total costs incurred as of December 31, 2018 totaled \$ 406,938, leaving \$ 214,330 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, 2018, 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.

NOTE 10 SUBSEQUENT EVENT

On February 1, 2019, the Library System entered into a 10-year lease agreement with Cumberland County for the rental of office space at Pennsylvania School Boards Association, Inc. with a total expected cost of \$ 1,013,561 over the 10 years.

REQUIRED SUPPLEMENTARY INFORMATION

CUMBERLAND COUNTY LIBRARY SYSTEM
Budgetary Comparison Schedule - General Fund (Unaudited)
Year Ended December 31, 2018

| | <u>Budget</u> | | General Fund Actual | Variance with Final Budget Positive (Negative) |
|------------------------------------|---------------------|---------------------|------------------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Program revenues | | | | |
| Operating grants | | | | |
| State public library subsidy | \$ 1,058,037 | \$ 1,058,037 | \$ 1,058,037 | \$ - |
| Other local grants | 103,500 | 103,500 | 104,700 | 1,200 |
| Other state and county revenue | <u>500</u> | <u>500</u> | <u>398</u> | <u>(102)</u> |
| Total program revenues | <u>1,162,037</u> | <u>1,162,037</u> | <u>1,163,135</u> | <u>1,098</u> |
| General revenues | | | | |
| Cumberland County tax revenue | 3,948,000 | 3,948,000 | 3,989,233 | 41,233 |
| Interest | 23,975 | 23,975 | 59,829 | 35,854 |
| Donations | 1,000 | 1,000 | 323,911 | 322,911 |
| Fines | 18,500 | 18,500 | 20,690 | 2,190 |
| Miscellaneous | <u>100</u> | <u>100</u> | <u>19</u> | <u>(81)</u> |
| Total general revenues | <u>3,991,575</u> | <u>3,991,575</u> | <u>4,393,682</u> | <u>402,107</u> |
| Total revenues | <u>5,153,612</u> | <u>5,153,612</u> | <u>5,556,817</u> | <u>403,205</u> |
| Program expenditures | | | | |
| Personnel | 939,041 | 939,041 | 859,625 | 79,416 |
| Collection | 199,879 | 199,879 | 192,294 | 7,585 |
| Other operating expenditures | 670,751 | 670,751 | 455,619 | 215,132 |
| Member library distributions | | | | |
| State public library subsidy | 700,602 | 700,602 | 700,602 | - |
| Cumberland County tax | 2,813,400 | 2,813,400 | 2,813,400 | - |
| MOU Conditional Grant distribution | 38,750 | 38,750 | 38,750 | - |
| Online fines and fees | <u>18,835</u> | <u>18,835</u> | <u>16,368</u> | <u>2,467</u> |
| Total expenditures | <u>5,381,258</u> | <u>5,381,258</u> | <u>5,076,658</u> | <u>304,600</u> |
| Change in fund balance | <u>\$ (227,646)</u> | <u>\$ (227,646)</u> | <u>\$ 480,159</u> | <u>\$ 707,805</u> |

OTHER SUPPLEMENTARY INFORMATION

CUMBERLAND COUNTY LIBRARY SYSTEM
Detailed Budgetary Comparison Schedule - General Fund
Year Ended December 31, 2018

| | Final Budget | Actual | Variance |
|--|---------------------|-------------------|-----------------|
| Revenues | | | |
| Program revenues | | | |
| State public library subsidy | \$ 1,058,037 | \$ 1,058,037 | \$ - |
| Other grants | 103,500 | 104,700 | 1,200 |
| Other state and county revenue | <u>500</u> | <u>398</u> | <u>(102)</u> |
| Total program revenues | <u>1,162,037</u> | <u>1,163,135</u> | <u>1,098</u> |
| General revenues | | | |
| Cumberland county tax revenue | 3,948,000 | 3,989,233 | 41,233 |
| Interest | 23,975 | 59,829 | 35,854 |
| Donations | 1,000 | 323,911 | 322,911 |
| Fines | 18,500 | 20,690 | 2,190 |
| Miscellaneous | <u>100</u> | <u>19</u> | <u>(81)</u> |
| Total general revenues | <u>3,991,575</u> | <u>4,393,682</u> | <u>402,107</u> |
| Total revenues | <u>5,153,612</u> | <u>5,556,817</u> | <u>403,205</u> |
| Expenditures | | | |
| Personnel | | | |
| Wages | 722,953 | 684,963 | 37,990 |
| Benefits | | | |
| FICA-employer | 55,306 | 52,133 | 3,173 |
| Unemployment-employer | 1,764 | 914 | 850 |
| Worker's compensation | 405 | 263 | 142 |
| Health insurance | 91,835 | 83,612 | 8,223 |
| Life and Disability insurance | 5,327 | 3,986 | 1,341 |
| Retirement | <u>61,451</u> | <u>33,754</u> | <u>27,697</u> |
| Total personnel expenditures | <u>939,041</u> | <u>859,625</u> | <u>79,416</u> |
| Collection | | | |
| Books | 6,000 | 9,349 | (3,349) |
| Periodicals and newspapers | 936 | 878 | 58 |
| Electronic information and internet services | 122,173 | 116,287 | 5,886 |
| Library supplies | <u>70,770</u> | <u>65,780</u> | <u>4,990</u> |
| Total collection expenditures | <u>\$ 199,879</u> | <u>\$ 192,294</u> | <u>\$ 7,585</u> |

CUMBERLAND COUNTY LIBRARY SYSTEM
Detailed Budgetary Comparison Schedule - General Fund (Continued)
Year Ended December 31, 2018

| | Final Budget | Actual | Variance |
|--|---------------------|----------------|-----------------|
| Expenditures (Continued) | | | |
| Other operating expenditures | | | |
| Office | | | |
| Office supplies | \$ 3,300 | \$ 1,389 | \$ 1,911 |
| Furniture and Equipment | 3,500 | 236 | 3,264 |
| Postage and delivery | 32,000 | 22,733 | 9,267 |
| Printing | 8,000 | 483 | 7,517 |
| Photocopier supplies & service | 2,700 | 2,576 | 124 |
| Computer equipment | | | |
| Hardware | 155,375 | 104,768 | 50,607 |
| Software | 75,835 | 73,411 | 2,424 |
| Office hardware and software maintenance | 950 | 256 | 694 |
| Automation hardware maintenance | 39,839 | 21,666 | 18,173 |
| Automation software maintenance | 78,568 | 22,130 | 56,438 |
| Occupancy | | | |
| Building maintenance | 21,936 | 20,800 | 1,136 |
| Rent | 51,770 | 51,770 | - |
| Utilities | 20,710 | 15,778 | 4,932 |
| Insurance | 1,090 | 1,657 | (567) |
| Telecommunications | | | |
| General office | 7,700 | 2,782 | 4,918 |
| Automation system | 66,522 | 53,706 | 12,816 |
| Public relations | 5,405 | 1,287 | 4,118 |
| Programming | | | |
| Summer reading | 2,750 | 4,200 | (1,450) |
| Trustee | 750 | 118 | 632 |
| Staff | 6,100 | 2,970 | 3,130 |
| Movie licensing USA | 3,000 | 3,150 | (150) |
| One Book One Community | 600 | 588 | 12 |
| Contracted services | | | |
| Database | 7,000 | 5,027 | 1,973 |
| Consultant | 15,000 | 999 | 14,001 |
| Audit and Accounting | 15,600 | 15,265 | 335 |
| Other miscellaneous operating | | | |
| Dues and memberships | 5,819 | 5,894 | (75) |
| Cost of raising money and miscellaneous | 9,683 | 7,496 | 2,187 |
| Staff travel and training | | | |
| Travel | 7,249 | 6,544 | 705 |
| Continuing education | 22,000 | 5,940 | 16,060 |
| Total other operating expenditures | <u>670,751</u> | <u>455,619</u> | <u>215,132</u> |

CUMBERLAND COUNTY LIBRARY SYSTEM
Detailed Budgetary Comparison Schedule - General Fund (Continued)
Year Ended December 31, 2018

| Expenditures (Continued) | Final Budget | Actual | Variance |
|---|---------------------|---------------------|-------------------|
| Member library distributions | | | |
| State public library subsidy | | | |
| Amelia S. Givin | \$ 46,336 | \$ 46,336 | \$ - |
| Bosler | 139,912 | 139,912 | - |
| Cleve J. Fredrickson | 207,528 | 207,528 | - |
| John Graham | 30,369 | 30,369 | - |
| Joseph T. Simpson | 135,848 | 135,848 | - |
| New Cumberland | 60,016 | 60,016 | - |
| Shippensburg | <u>80,593</u> | <u>80,593</u> | <u>-</u> |
| Total state public library subsidy | <u>700,602</u> | <u>700,602</u> | <u>-</u> |
| Cumberland County tax | | | |
| Amelia S. Givin | 186,072 | 186,072 | - |
| Bosler | 561,841 | 561,841 | - |
| Cleve J. Fredrickson | 833,369 | 833,369 | - |
| John Graham | 121,953 | 121,953 | - |
| Joseph T. Simpson | 545,522 | 545,522 | - |
| New Cumberland | 241,006 | 241,006 | - |
| Shippensburg | <u>323,637</u> | <u>323,637</u> | <u>-</u> |
| Total Cumberland County tax | <u>2,813,400</u> | <u>2,813,400</u> | <u>-</u> |
| MOU Conditional Grant distribution | | | |
| Amelia S. Givin | 2,563 | 2,563 | - |
| Bosler | 7,738 | 7,738 | - |
| Cleve J. Fredrickson | 11,478 | 11,478 | - |
| John Graham | 1,680 | 1,680 | - |
| Joseph T. Simpson | 7,514 | 7,514 | - |
| New Cumberland | 3,319 | 3,319 | - |
| Shippensburg | <u>4,458</u> | <u>4,458</u> | <u>-</u> |
| Total MOU Conditional Grant distribution | <u>\$ 38,750</u> | <u>\$ 38,750</u> | <u>\$ -</u> |
| Online fines and fees | | | |
| Amelia S. Givin | \$ 674 | \$ 821 | \$ (147) |
| Bosler | 3,663 | 2,578 | 1,085 |
| Cleve J. Fredrickson | 8,176 | 6,295 | 1,881 |
| John Graham | 220 | 239 | (19) |
| Joseph T. Simpson | 2,478 | 2,949 | (471) |
| New Cumberland | 2,033 | 1,803 | 230 |
| Shippensburg | <u>1,591</u> | <u>1,683</u> | <u>(92)</u> |
| Total online fines and fees | <u>18,835</u> | <u>16,368</u> | <u>2,467</u> |
| Total expenditures | <u>\$ 5,381,258</u> | <u>\$ 5,076,658</u> | <u>\$ 304,600</u> |