

Audited
Financial
Statements

December 31,
2016

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, 2016, 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, 2016, 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 2015 financial statements, and we have expressed unmodified audit opinions on those audited financial statements in our report dated July 6, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 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 15, and budgetary comparison schedule – general fund on page 30 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
August 2, 2017

CUMBERLAND COUNTY LIBRARY SYSTEM

Management's Discussion and Analysis

December 31, 2016

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, 2016. 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 2016 Activities

In 2016, the library system headquarters' significant initiatives included:

1. **Entering into a Memorandum of Understanding (MOU):** The Cumberland County Board of Commissioners recognized the importance of the Library System in enhancing and improving the quality of life for citizens of Cumberland County, and that in order to provide services to benefit the public at the level to which they have become accustomed, an increase in the County's dedicated library tax and funding from the County was necessary. Recognizing that there has been no increase in the tax rate for more than 12 years, the

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Board of Commissioners increased the library tax mill rate by .023 mills, effective the beginning of 2017. Additionally, the Board of Commissioners made conditional grants available to the library system in the total amount of up to \$ 100,000 each year commencing in 2018 and ending in 2020.

As a result of the tax increase, the Library System agreed to the following:

- In cooperation with the Board of Commissioners, the Library System will form, support and participate in a task force to act in an advisory capacity to both the County and the Library System to promote progress towards an agreed-upon vision of the “library of the future”, starting with the engagement of a consultant for the Library System’s next strategic plan. This will be called the Future’s Task Group and consist of at least 9 members from the Library Board, local communities, the Board of Commissioners, the County Information and Technology Management Office and other stakeholders.
- The Library System will dedicate sufficient staff and resources for the development, coordination and implementation of intergenerational programs to serve both the oldest and youngest generations. Cooperation from the County’s Office of Aging and Community Services, and input from the Aging Advisory Board as well as public and private individuals and institutions will strengthen these programs.
- The Library System will adopt and maintain a revised policy for library card suspension in the first quarter of 2017. The new policy contains language that eliminates the option for customers to carry a fine balance, except in cases of economic hardship where a payment plan is established and made in accordance with the agreed upon schedule.

Eight goals in six performance areas were established in the MOU and tied to conditional grants of varying amounts:

- Performance Area 1: Diversification of Funding
 - Goal: Increase system-wide private, local and municipal and in-kind gift and non-capital support 5% more than received in 2016.
- Performance Area 2: Digital Inclusion
 - Goal: Improve Wi-Fi services for customers by doubling the total amount of internet bandwidth available from the Library System by September 30, 2017.
 - Goal: Improve the public’s access to high-speed Internet services by configuring and replacing at least 70 public internet computer stations with new equipment and software by July 1, 2017.
- Performance Area 3: Lifelong Education/ Library of the Future
 - Goal: Implement children’s literacy computer stations (or tablets, if desired) at all member libraries by June 30, 2017.

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- Performance Area 4: Library of the Future
 - Goal: Increase funds allocated for e-books and e-audios 50% in 2017 over 2016 levels.
 - Goal: By the end of 2017, in conjunction with the Cumberland County Prison, Courts, Children and Youth and IMTO, develop a proposal for a tell-a-story project that would enable children to communicate via video teleconferencing with an incarcerated parent
 - Performance Area 5: Operational Efficiency
 - Goal: Reduce staff time by at least 3% and improve financial security/record keeping when handling cash or credit card transactions through implementation of secure point-of-sale cash drawers and circulation desk credit card services from current 2016 levels
 - Performance Area 6: Children's Literacy
 - Goal: Improve young children's understanding of math and science concepts through implementation of new programs that:
 - Provide 16 outreach library classes and 24 in-library classes across the County on math and science concepts for elementary school age children by August 31, 2017.
 - Provide a collection of at least 50 Discovery Activity Centers on math and science concepts that rotate periodically among libraries to be used by preschoolers by August 31, 2017.
 - Have at least 60% of parents who are surveyed report that their child or children who attended math and science library classes, or who used Discovery Activity Centers improved his/her understanding of math and science concepts.
2. **Cumberland County Libraries Continue #1 Statewide Ranking:** Citizens borrowed more than 2.4 million items in 2016 from Cumberland County's public libraries. On a per capita basis, the Cumberland County Library System remains the busiest county library system in Pennsylvania for the 18th consecutive year.
3. **Reading Support for Young Children:** In 2016, children borrowed 965,800 items from Cumberland County's libraries. This was an average of 23 items for every child in the county. In addition, over 122,052 kids attended regular infant, toddler and preschool Storytime classes held throughout the year at libraries and 6,624 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:

- 66% 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.

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- 97% 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.

4. **Bridging the Digital Divide:** Citizens logged on to the library system's public Internet computers 151,474 times. This was a 19% increase from just 10 years ago. In addition, citizens used the library system's Wi-Fi services 261,422 times.
5. **Safe, Welcoming Gathering Spaces:** Over 1.1 million people visited Cumberland County's libraries in 2016. (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.)

The East Pennsboro Branch of the Cleve J. Fredricksen Library moved to larger, more accessible quarters on the first floor of the East Pennsboro Township municipal building. Not only was the branch able to expand its collections, but it has an exterior door which allows the library to be open after the township building closes.

The Amelia Givin Library in Mt. Holly Springs received a USDA rural community grant to improve the library's heating and cooling systems, providing a more comfortable environment for visitors and staff.

The Shippensburg Public Library is in the midst of a building project. In 2016 they completed a new entrance, lobby, staff work area and, most importantly, an elevator to its second and third floors providing improved accessibility to the second and third floors. More improvements are scheduled for 2017, including expanded parking and program space.

In addition to these 2016 initiatives, the library system headquarters continued to provide member libraries and the public with services in six key areas: 1) information technology; 2) collection services; 3) direct library services; 4) star outreach services to older adults; 5) training services for staff and board members; and 6) administrative and financial services.

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 2016, the network was comprised of 321 computers, including 23 servers, 142 computers for the public and 181 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 2016, the system's Public Internet computers were used 151,474 times and the library system's web site was visited more than 697,000 times — decreases of 14% and 33% (respectively) from the prior year.

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2. **Collection 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 2016, 25,833 items were added to the Library Systems collections – a 17% 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 2016, the number of library card holders (101,408) increased 7% from the previous year.
4. **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 84 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 2016, the number of items borrowed (9,082 items) by homebound individuals declined 6%.
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 2016, 378 staff recorded 1,244 learning hours. These numbers were reduced from previous years because the sole staff member dedicated to this department took responsibilities as Interim Executive Director for the Library System following a retirement in November 2016.
6. **Administrative & Financial Services:** Administrative and financial services fell into three primary areas: 1) library service planning, coordination and evaluation; 2) public relations; 3) finance.

2) FINANCIAL HIGHLIGHTS:

In 2016, the library system's total revenues were \$ 4,442,115, which is an increase of 1.18% from prior year. This reflects an increase in State Public Library subsidy received, the first increase in 5 years. Its total expenditures were \$ 4,627,703, an increase of \$ 11,129 or less than 1% from the prior year. The change in net position was (\$ 185,588) as compared to (\$ 226,034) for the prior budget year, a 18% increase.

The fund balance as of December 31, 2016 is \$ 3,091,393 and was comprised of four components:

1. **125-Day Contingency Fund Balance of \$ 2,009,748:** 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 \$ 112,499:** 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 \$ 963,727:** 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 21% of the system's total operating expenditures – an indicator of sound financial practices.
4. **Non-spendable Fund Balance of \$ 5,419:** This fund represents a contractual service pre-payment.

3) DESCRIPTION OF THE BASIC FINANCIAL STATEMENTS:

The library system headquarters' annual audit report consists of a series of statements:

- a. *The Statement of Net Position and Governmental Fund Balance Sheet* — Provides details on the System Headquarters' assets, liabilities and net 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.

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- 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.

4. CONDENSED COMPARATIVE FINANCIAL STATEMENTS:

Statement of Net Position	Amount		Percentage	
	2016	2015	2016	2015
Assets				
Current Assets	\$ 3,369,484	\$ 3,478,049	76%	76%
Noncurrent assets	1,084,141	1,095,934	24%	24%
Total Assets	\$ 4,453,625	\$ 4,573,983	100%	100%
Liabilities				
Current liabilities	\$ 299,838	\$ 183,554	32%	21%
Long-term liabilities	626,553	677,607	68%	79%
Total Liabilities	\$ 926,391	\$ 861,161	100%	100%
Net Position				
Net investment in capital assets	\$ 344,054	\$ 415,707	10%	11%
Unrestricted	3,183,180	3,297,115	90%	89%
Total Net Position	\$ 3,527,234	\$ 3,712,822	100%	100%
Total Liabilities and Net Position	\$ 4,453,625	\$ 4,573,983		

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Statement of Activities	Amount		Percentage	
	2016	2015	2016	2015
Revenues				
Program Revenues				
State Funds	\$ 1,058,037	\$ 1,039,331	24%	24%
Grants	20,359	26,500	1%	1%
Other program funds	343	681	0%	0%
Total Program Revenues	\$ 1,078,739	\$ 1,066,512	25%	25%
General Revenues				
County tax revenue	3,344,062	3,288,906	75%	75%
Interest	20,952	13,925	0%	0%
Donations	1,906	3,526	0%	0%
Fines (online payments)	16,629	17,002	0%	0%
Miscellaneous	(20,173)	669	0%	0%
Total General Revenues	\$ 3,363,376	\$ 3,324,028	75%	75%
Total Revenues	\$ 4,442,115	\$ 4,390,540	100%	100%
Program Expenses				
Wages and benefits	\$ 865,747	\$ 835,975	19%	18%
Collection	149,717	235,315	3%	5%
Debt service	21,053	22,007	0%	0%
Other operating	418,101	360,330	9%	8%
Member library distributions	3,173,085	3,162,947	69%	69%
Total expenses	\$ 4,627,703	\$ 4,616,574	100%	100%
Change in Net Position	\$ (185,588)	\$ (226,034)		

5) ANALYSIS OF OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS FOR GOVERNMENTAL ACTIVITIES:

The library system headquarters completed its fiscal year in a good financial position. At the close of December 31, 2016, its assets stood at \$ 4,553,625 compared to the prior year's \$ 4,573,983.

The library system headquarters completed the year with an Unassigned Fund Balance of \$ 963,727. This is 21% 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 \$ 782,264 in 2016.

In addition, the library system headquarters had a fully funded 125-day Contingency Fund Balance of \$ 2,009,748. 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.

Finally, the library system headquarters had a committed Strategic Development Fund reported in 2015. As requested by the Cumberland County Commissioners in December of 2016, the Library System Board reclassified this fund and rolled the balance into the 125-Day Contingency Fund.

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.

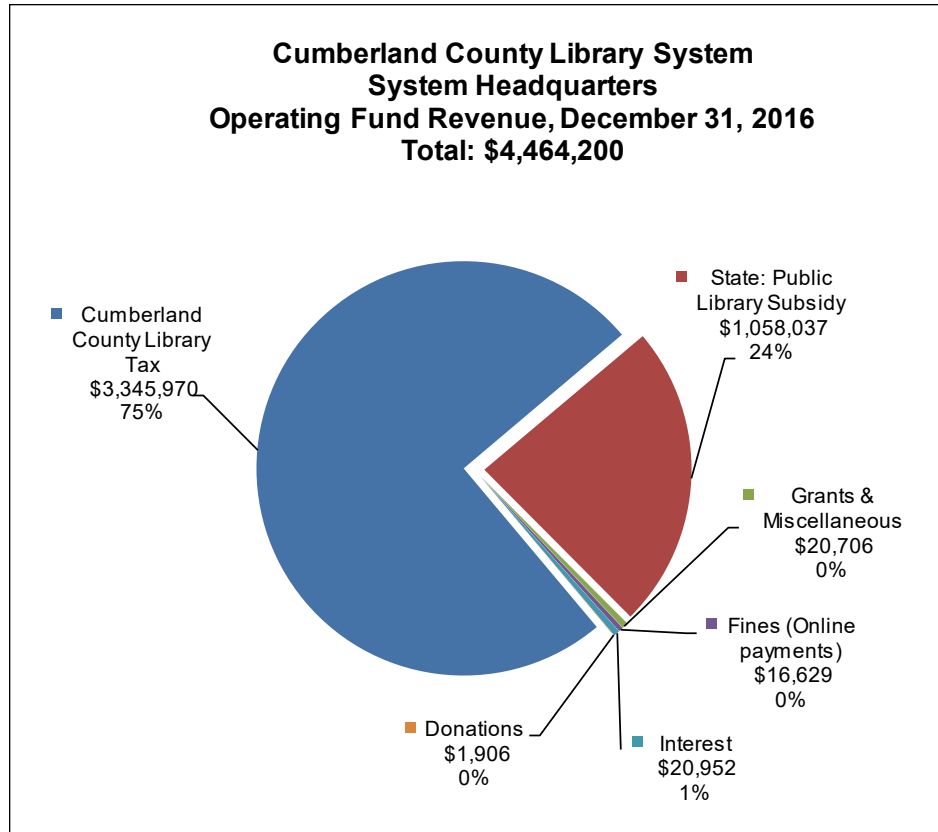
¹ Gauthier, Stephen J., "GFOA Updates Best Practice on Fund Balance," *Government Finance Review*. December 2009, page 69.

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BUDGETARY ANALYSIS:

Revenues

Overall, the library system's total revenues were \$ 4,464,200, an increase of \$ 73,646 compared to the prior year. This increase was the result of an increase in State public library subsidy, the first increase in 5 years, and an increase in County taxes received. In addition, an increase in interest revenue of \$ 7,452, from investment changes added to the increase in revenue.



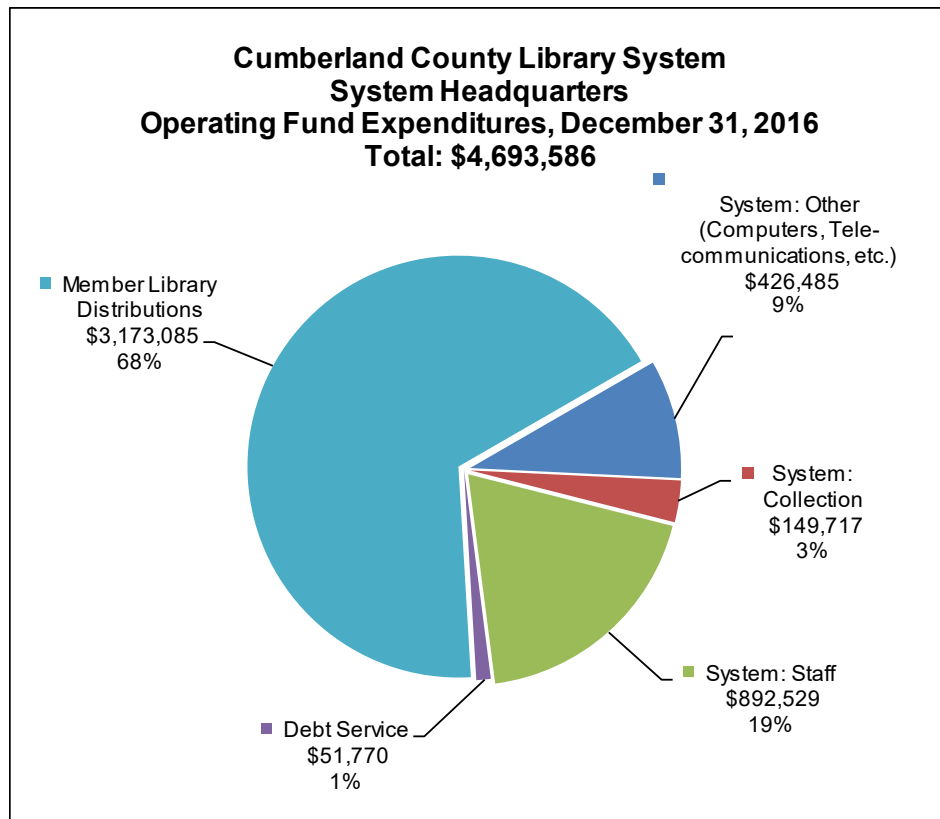
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Expenditures

Overall, the library system's total expenditures of \$ 4,693,586 increased 2.8% or \$ 128,118 from the prior year. Payout of prior executive director compensated absences, and 2015 new hires working a full year increased personnel costs \$ 58,040. In addition, member library distributions of \$ 3,173,085 increased by \$ 10,138 or less than 1%.

The Library System's expenditures were \$ 109,915 less than budgeted. This was due to:

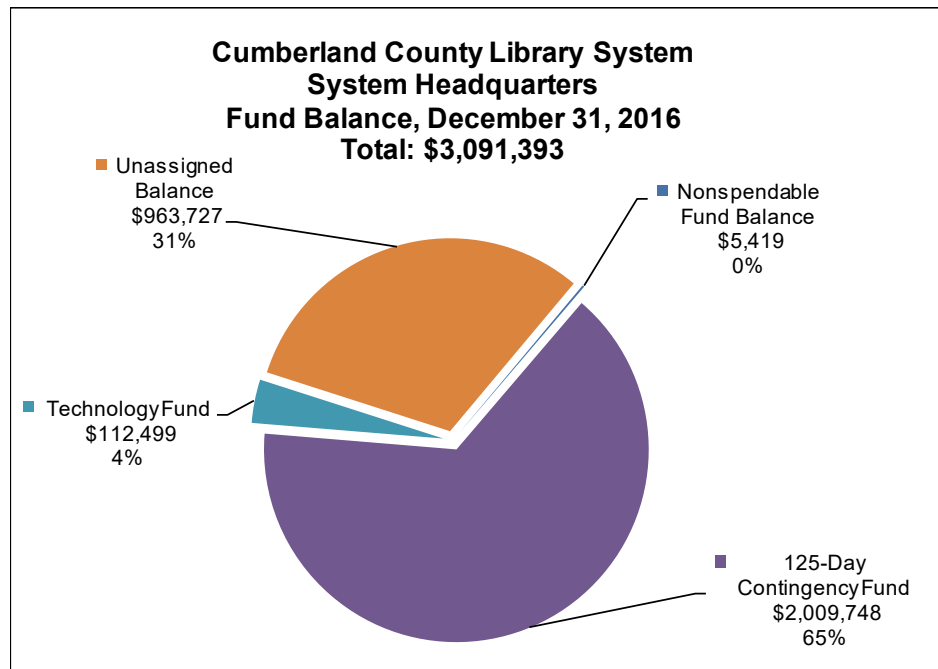
- Collection expenditures were \$ 23,649 under budget due to lower than expected grant project expenditures; and
- Other operating expenditures were \$ 52,667 under budget due to lower than expected postage/delivery costs, wide area network costs, and utilities costs. Continuing education costs were also lower than expected.



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Fund Balance

- The Library System Board transferred \$ 331,798 from the Strategic Development Fund, to fund a budget deficit in 2016. This was 8% of the Library System's 2016 operating revenue. This fund was then eliminated in 2016, remaining funds were transferred to the 125-Day Contingency Fund.
- The Library System Board added \$ 821,199 from the eliminated Strategic Development Fund to its 125-Day Contingency Fund. This combined fund now has a balance of \$ 2,009,748.
- The Library System Board did not use any Technology Funds. The fund now stands at \$ 112,499 and is expected to be used in the future for major upgrades to computer servers and software technology.
- The Library System carried over a \$ 963,727 Unassigned Fund Balance for its 2017 operating budget cash flow needs.
- The Library System also carried over \$ 5,419 non-spendable funds.



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6) CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY:

Total Capital Assets (net of depreciation) were \$ 1,084,141 at December 31, 2016. This was a \$ 11,793 decrease in total capital assets.

Capital Assets, Dec. 31, 2016 (net of depreciation)	2016	2015	Change
Exhaustible collection	\$ 27,631	\$ 20,111	\$ 7,520
Property and equipment	1,056,510	1,075,823	(19,313)
Total Capital Assets	1,084,141	1,095,934	(11,793)

Total capital lease payable at December 31, 2016 is \$ 649,510; which is a decrease of \$ 30,717 compared to the previous year.

7) 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 is projected to yield \$ 536,490 in additional library tax support. The taxpayer base for Cumberland County is expected to grow less than 1% in 2017.

Public Library Subsidy revenues from the Commonwealth of Pennsylvania increased 1.8% in 2016.

In 2007, the Cumberland County Library System Foundation Board was incorporated as a separate entity from the Library System. It received federal non-profit 501(c)(3) status in 2007. The purpose of the Cumberland County Library System Foundation is to support the Cumberland County, Pennsylvania, Library System and its member libraries. In 2016, the Foundation received \$ 57,432 in gifts, donations and grants. This \$ 45,954 increase from 2015 was due to the 2015 state delay in adopting a budget which resulted in Educational Improvement Tax Credit funds being unavailable for most of 2015. Educational Improvement Tax Credits were received in 2016. 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

8) 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, 2016
(With Summarized Financial Information for December 31, 2015)

	General Fund	Adjustments	Governmental Activities Statement of Net Position	
			2016	2015
Assets				
Current assets				
Cash and cash equivalents	\$ 2,214,685	\$ -	\$ 2,214,685	\$ 3,372,361
Investments	1,005,235	-	1,005,235	-
Accounts receivable	107,954	36,191	144,145	102,109
Prepaid items	5,419	-	5,419	3,579
Total current assets	<u>3,333,293</u>	<u>36,191</u>	<u>3,369,484</u>	<u>3,478,049</u>
Noncurrent assets				
Exhaustible collection (net of accumulated depreciation)	-	27,631	27,631	20,111
Property and equipment (net of accumulated depreciation)	-	1,056,510	1,056,510	1,075,823
Total noncurrent assets	<u>-</u>	<u>1,084,141</u>	<u>1,084,141</u>	<u>1,095,934</u>
Total assets	<u>\$ 3,333,293</u>	<u>\$ 1,120,332</u>	<u>\$ 4,453,625</u>	<u>\$ 4,573,983</u>
Liabilities				
Current liabilities				
Accounts payable	\$ 123,804	\$ -	\$ 123,804	\$ 19,882
Accrued payroll and benefits	118,096	-	118,096	99,289
Compensated absences	-	26,236	26,236	33,666
Long-term liabilities: Due within one year	-	31,702	31,702	30,717
Capital lease payable	-	31,702	31,702	30,717
Total current liabilities	<u>241,900</u>	<u>57,938</u>	<u>299,838</u>	<u>183,554</u>
Long-term liabilities				
Compensated absences	-	8,745	8,745	28,097
Capital lease payable	-	617,808	617,808	649,510
Total long-term liabilities	<u>-</u>	<u>626,553</u>	<u>626,553</u>	<u>677,607</u>
Total liabilities	<u>241,900</u>	<u>684,491</u>	<u>926,391</u>	<u>861,161</u>
Fund balance/net position				
Nonspendable fund balance				
Prepaid items	5,419	(5,419)	-	-
Committed fund balance				
125-day contingency	2,009,748	(2,009,748)	-	-
Technology	112,499	(112,499)	-	-
Unassigned fund balance	963,727	(963,727)	-	-
Total fund balance	<u>3,091,393</u>	<u>(3,091,393)</u>	<u>-</u>	<u>-</u>
Net position				
Net investment in capital assets	-	344,054	344,054	415,707
Unrestricted	-	3,183,180	3,183,180	3,297,115
Total net position	<u>-</u>	<u>3,527,234</u>	<u>3,527,234</u>	<u>3,712,822</u>
Total liabilities and fund balance/net position	<u>\$ 3,333,293</u>	<u>\$ 1,120,332</u>	<u>\$ 4,453,625</u>	<u>\$ 4,573,983</u>

CUMBERLAND COUNTY LIBRARY SYSTEM
Statement of Activities and Governmental Fund Revenues, Expenditures, and
Changes in Fund Balance
Year Ended December 31, 2016
(With Summarized Financial Information for the Year Ended December 31, 2015)

	General Fund	Adjustments	Governmental Activities Statement of Activities	
			2016	2015
Program expenditures/expenses				
Personnel	\$ 892,529	\$ (26,782)	\$ 865,747	\$ 835,975
Collection	149,717	-	149,717	235,315
Other operating expenditures	426,485	(8,384)	418,101	360,330
Debt service				
Principal	30,717	(30,717)	-	-
Interest expense	21,053	-	21,053	22,007
Member library distributions				
State public library subsidy	700,600	-	700,600	688,218
Cumberland County tax	2,413,836	-	2,413,836	2,413,836
Health subsidy distribution	44,044	-	44,044	43,696
Online fines and fees	14,605	-	14,605	17,197
Total expenditures/expenses	<u>4,693,586</u>	<u>(65,883)</u>	<u>4,627,703</u>	<u>4,616,574</u>
Program revenues				
Operating grants				
State public library subsidy	1,058,037	-	1,058,037	1,039,331
Other grants	20,359	-	20,359	26,500
Other state and county revenue	343	-	343	681
Total program revenues	<u>1,078,739</u>	<u>-</u>	<u>1,078,739</u>	<u>1,066,512</u>
Net program revenue			<u>(3,548,964)</u>	<u>(3,550,062)</u>
General revenues				
Cumberland County tax revenue	3,345,970	(1,908)	3,344,062	3,288,906
Interest	20,952	-	20,952	13,925
Donations	1,906	-	1,906	3,526
Fines	16,629	-	16,629	17,002
Miscellaneous	4	-	4	669
Gain (loss) on sale of capital assets	-	(20,177)	(20,177)	-
Total general revenues	<u>3,385,461</u>	<u>(22,085)</u>	<u>3,363,376</u>	<u>3,324,028</u>
Revenues over (under) expenditures/change in net position	(229,386)	43,798	(185,588)	(226,034)
Fund balance/net position - beginning of year	<u>3,320,779</u>	<u>392,043</u>	<u>3,712,822</u>	<u>3,938,856</u>
Fund balance/net position - end of year	<u>\$ 3,091,393</u>	<u>\$ 435,841</u>	<u>\$ 3,527,234</u>	<u>\$ 3,712,822</u>

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements
December 31, 2016

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, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Fund

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

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

Basis of Accounting

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

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

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

	December 31, 2016
Fund balance, Governmental Funds	\$ 3,091,393
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the general fund.	
Cost of assets	1,876,537
Accumulated depreciation	(792,396)
	1,084,141
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.	36,191
Long-term liabilities are not due and payable in the current period, and therefore are not reported as a liability in the fund financial statements, but are included in the governmental activities of the Statement of Net Position. Long-term liabilities consist of:	
Capital lease payable	(649,510)
Compensated absences	(34,981)
	(684,491)
Net position, Governmental Activities	\$ 3,527,234

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements
December 31, 2016

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, 2016
Change in fund balance, Governmental Funds	\$ (229,386)
<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	133,507
Depreciation expense	(125,123)
	8,384
<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 the fund balance by the undepreciated cost of the capital assets disposed of.</p>	
	(20,177)
<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>	
	(1,908)
<p>Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.</p>	
	30,717
<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>	
	26,782
Change in net position, Governmental Activities	\$ (185,588)

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, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

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

Capital Assets

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

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

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

Accounts Payable

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

Tax Revenue

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

Use of Estimates

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

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

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

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

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.

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 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 99% of its total program and general revenues from the Commonwealth of Pennsylvania and Cumberland County for the year ended December 31, 2016. Any reductions in funding could have a significant impact on the Library System.

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements
December 31, 2016

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, 2016, the Library System had deposit balances in the amount of \$ 3,232,227, of which \$ 282,200 was insured by FDIC and \$ 2,950,027 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 certification of deposit (CD) in the amount of \$ 1,005,235 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.

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable as of December 31, 2016 are as follows:

Cumberland County Library Tax - 2016	\$ 82,210
Universal service fund credit	35,633
Member libraries	23,982
Other receivables	<u>2,320</u>
Receivables - full accrual basis	144,145
Less revenues not received in 75 days	<u>(36,191)</u>
Receivables - modified accrual basis	<u><u>\$ 107,954</u></u>

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements
December 31, 2016

NOTE 4 CAPITAL ASSETS

Capital asset activity for the System consists of the following for the year ended December 31, 2016:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities				
<i>Capital assets being depreciated:</i>				
Exhaustible collection				
Cost				
STAR book collection	\$ 38,979	\$ 12,999	\$ (6,395)	\$ 45,583
STAR AV collection	9,985	-	(4,443)	5,542
	<u>48,964</u>	<u>12,999</u>	<u>(10,838)</u>	<u>51,125</u>
Accumulated depreciation				
STAR book collection	(20,540)	(4,655)	6,363	(18,832)
STAR AV collection	(8,313)	(792)	4,443	(4,662)
	<u>(28,853)</u>	<u>(5,447)</u>	<u>10,806</u>	<u>(23,494)</u>
Exhaustible collection net of accumulated depreciation	<u>20,111</u>	<u>7,552</u>	<u>(32)</u>	<u>27,631</u>
Property and equipment				
Cost				
Leasehold improvements	996,026	-	-	996,026
Office equipment	37,860	-	-	37,860
Intralibrary network, equipment, hardware and software	750,171	120,508	(79,153)	791,526
	<u>1,784,057</u>	<u>120,508</u>	<u>(79,153)</u>	<u>1,825,412</u>
Accumulated depreciation				
Leasehold improvements	(149,403)	(49,801)	-	(199,204)
Office computers and equipment	(27,222)	(5,287)	-	(32,509)
Intralibrary network, equipment, hardware and software	(531,609)	(64,588)	59,008	(537,189)
	<u>(708,234)</u>	<u>(119,676)</u>	<u>59,008</u>	<u>(768,902)</u>
Property and equipment net of accumulated depreciation	<u>1,075,823</u>	<u>832</u>	<u>(20,145)</u>	<u>1,056,510</u>
Total capital assets being depreciated, net	<u>\$ 1,095,934</u>	<u>\$ 8,384</u>	<u>\$ (20,177)</u>	<u>\$ 1,084,141</u>

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements
December 31, 2016

NOTE 5 LONG-TERM LIABILITIES

The changes in long-term liabilities during the year ended December 31, 2016 were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Current	Long-Term
Governmental activities						
Capital Lease Payable	\$ 680,227	\$ -	\$ (30,717)	\$ 649,510	\$ 31,702	\$ 617,808
Compensated Absences	61,763	49,734	(76,516)	34,981	26,236	8,745
Total	<u>\$ 741,990</u>	<u>\$ 49,734</u>	<u>\$ (107,233)</u>	<u>\$ 684,491</u>	<u>\$ 57,938</u>	<u>\$ 626,553</u>

Capital Lease Payable

On April 15, 2013, the Library System entered into an agreement with Cumberland County for the relocation of its main office. During 2012, Cumberland County agreed to renovate a building that would be occupied by both the County and the Library System. The Library System paid for a portion of the costs to renovate the building totaling \$ 228,167. The Library System's portion of the additional costs incurred by Cumberland County was \$ 1,035,401. This will be paid back over the next twenty years, starting on January 1, 2013, with annual payments of \$ 51,770. The capital lease is noninterest bearing; therefore, a discount rate of 3.16% was imputed to determine the original capital lease principal balance and corresponding leasehold improvement of \$ 767,859. The lease is considered capital due to the fact the lease term is at least seventy-five percent of the asset's estimated economic life. The agreement states that either party may terminate the lease agreement at any time, with or without cause, after year three, upon providing 24 months prior written notice to the other party. At this time, the possibility of cancellation is considered remote; therefore, the lease is capitalized. If this lease agreement was terminated, the Library system would not be liable for any remaining payments. If this were to occur, the remaining carrying value of the leasehold improvement asset and this capital lease would be written off and any difference would be recorded as gain or loss on disposal of asset at that time.

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

Fiscal Year	Principal	Interest	Total
2017	\$ 31,702	\$ 20,068	\$ 51,770
2018	32,718	19,052	51,770
2019	33,767	18,003	51,770
2020	34,850	16,920	51,770
2021	35,967	15,803	51,770
2022 - 2026	197,893	60,957	258,850
2027 - 2031	231,717	27,133	258,850
2032	<u>50,896</u>	<u>874</u>	<u>51,770</u>
	<u>\$ 649,510</u>	<u>\$ 178,810</u>	<u>\$ 828,320</u>

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements
December 31, 2016

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 \$ 892,529 for 2016, for which the Library System reimbursed the County. There is \$ 117,210 due to the County for payroll related expenditures at December 31, 2016.

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements
December 31, 2016

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 contract in 2013 for software, services, hosting and all server related functions totaling \$ 554,144. Total costs incurred as of December 31, 2016 totaled \$ 266,385, leaving \$ 287,759 that will be paid over a seven year period as annual subscription fees.

During the normal course of performing its duties to the general public which it serves, the Library System is subject to potential lawsuits and complaints. At December 31, 2016, 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, 2016

	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	\$ -
Other local grants	13,000	13,000	20,359	7,359
Other state and county revenue	-	500	343	(157)
Total program revenues	<u>1,071,037</u>	<u>1,071,537</u>	<u>1,078,739</u>	<u>7,202</u>
General revenues				
Cumberland County tax revenue	3,336,066	3,335,566	3,345,970	10,404
Interest	13,500	13,500	20,952	7,452
Donations	1,000	1,000	1,906	906
Fines	20,000	20,000	16,629	(3,371)
Miscellaneous	100	100	4	(96)
Total general revenues	<u>3,370,666</u>	<u>3,370,166</u>	<u>3,385,461</u>	<u>15,295</u>
Total revenues	<u>4,441,703</u>	<u>4,441,703</u>	<u>4,464,200</u>	<u>22,497</u>
Program expenditures				
Personnel	893,729	893,729	892,529	1,200
Collection	246,161	173,366	149,717	23,649
Other operating expenditures	411,357	479,152	426,485	52,667
Debt service				
Principal	32,556	32,556	30,717	1,839
Interest expense	21,704	21,704	21,053	651
Member library distributions				
State public library subsidy	700,603	700,603	700,600	3
Cumberland County tax	2,413,828	2,413,828	2,413,836	(8)
Health subsidy distribution	70,904	70,904	44,044	26,860
Online fines and fees	17,659	17,659	14,605	3,054
Total expenditures	<u>4,808,501</u>	<u>4,803,501</u>	<u>4,693,586</u>	<u>109,915</u>
Change in fund balance	(366,798)	(361,798)	(229,386)	132,412
Fund balance - beginning of year	<u>3,525,991</u>	<u>3,525,991</u>	<u>3,320,779</u>	<u>(205,212)</u>
Fund balance - end of year	<u>\$ 3,159,193</u>	<u>\$ 3,164,193</u>	<u>\$ 3,091,393</u>	<u>\$ (72,800)</u>

OTHER SUPPLEMENTARY INFORMATION

CUMBERLAND COUNTY LIBRARY SYSTEM
Detailed Budgetary Comparison Schedule - General Fund
Year Ended December 31, 2016

	Final Budget	Actual	Variance
Revenues			
Program revenues			
State public library subsidy	\$ 1,058,037	\$ 1,058,037	\$ -
Other grants	13,000	20,359	7,359
Other state and county revenue	500	343	(157)
Total program revenues	<u>1,071,537</u>	<u>1,078,739</u>	<u>7,202</u>
General revenues			
Cumberland county tax revenue	3,335,566	3,345,970	10,404
Interest	13,500	20,952	7,452
Donations	1,000	1,906	906
Fines	20,000	16,629	(3,371)
Miscellaneous	100	4	(96)
Total general revenues	<u>3,370,166</u>	<u>3,385,461</u>	<u>15,295</u>
Total revenues	<u>4,441,703</u>	<u>4,464,200</u>	<u>22,497</u>
Expenditures			
Personnel			
Wages	699,854	706,436	(6,582)
Benefits			
FICA-employer	52,009	52,351	(342)
Unemployment-employer	808	807	1
Worker's compensation	859	626	233
Health insurance	78,916	75,605	3,311
Life and Disability insurance	5,525	5,024	501
Retirement	55,758	51,680	4,078
Total personnel expenditures	<u>893,729</u>	<u>892,529</u>	<u>1,200</u>
Collection			
Books	13,000	13,301	(301)
Periodicals and newspapers	910	911	(1)
Collection development grants	-	4,798	(4,798)
Electronic information and internet services	97,456	71,499	25,957
Library supplies	62,000	59,208	2,792
Total collection expenditures	<u>\$ 173,366</u>	<u>\$ 149,717</u>	<u>\$ 23,649</u>

CUMBERLAND COUNTY LIBRARY SYSTEM
Detailed Budgetary Comparison Schedule - General Fund (Continued)
Year Ended December 31, 2016

	Final Budget	Actual	Variance
Expenditures (Continued)			
Other operating expenditures			
Office			
Office supplies	\$ 4,077	\$ 1,678	\$ 2,399
Automation	-	299	(299)
Postage and delivery	48,368	24,334	24,034
Printing	5,000	2,208	2,792
Photocopier supplies & service	5,356	3,847	1,509
Computer equipment			
Hardware	73,938	119,169	(45,231)
Software	74,079	71,152	2,927
Office hardware and software maintenance	950	468	482
Automation hardware maintenance	13,877	14,187	(310)
Automation software maintenance	19,911	16,474	3,437
Occupancy			
Building maintenance	25,144	21,909	3,235
Utilities	22,200	16,656	5,544
Insurance	1,104	487	617
Telecommunications			
General office	4,223	2,161	2,062
Automation system	84,322	67,767	16,555
Public relations	6,085	4,646	1,439
Programming			
Summer reading	2,520	2,550	(30)
Trustee	1,556	81	1,475
Staff	6,500	4,295	2,205
Movie licensing USA	2,800	2,750	50
One Book One Community	5,000	505	4,495
Contracted services			
Database	7,000	5,306	1,694
Consultant	-	155	(155)
Audit and Accounting	16,685	14,960	1,725
Other miscellaneous operating			
Dues and memberships	5,465	5,276	189
Cost of raising money and miscellaneous	10,482	8,405	2,077
Staff travel and training			
Travel	5,800	4,237	1,563
Continuing education	26,710	10,523	16,187
Total other operating expenditures	<u>479,152</u>	<u>426,485</u>	<u>52,667</u>
Debt service			
Principal	32,556	30,717	1,839
Interest expense	21,704	21,053	651
Total debt service	<u>\$ 54,260</u>	<u>\$ 51,770</u>	<u>\$ 2,490</u>

CUMBERLAND COUNTY LIBRARY SYSTEM
Detailed Budgetary Comparison Schedule - General Fund (Continued)
Year Ended December 31, 2016

	Final Budget	Actual	Variance
Expenditures (Continued)			
Member library distributions			
State public library subsidy			
Amelia S. Givin	\$ 47,430	\$ 47,430	\$ -
Bosler	140,203	140,202	1
Cleve J. Fredrickson	216,043	216,043	-
John Graham	31,036	31,036	-
Joseph T. Simpson	134,925	134,924	1
New Cumberland	63,721	63,721	-
Shippensburg	<u>67,245</u>	<u>67,244</u>	<u>1</u>
Total state public library subsidy	<u>700,603</u>	<u>700,600</u>	<u>3</u>
Cumberland County tax			
Amelia S. Givin	163,415	163,416	(1)
Bosler	483,049	483,048	1
Cleve J. Fredrickson	744,346	744,348	(2)
John Graham	106,930	106,932	(2)
Joseph T. Simpson	464,864	464,868	(4)
New Cumberland	219,542	219,540	2
Shippensburg	<u>231,682</u>	<u>231,684</u>	<u>(2)</u>
Total Cumberland County tax	<u>2,413,828</u>	<u>2,413,836</u>	<u>(8)</u>
Health subsidy distribution			
Amelia S. Givin	3,592	3,592	-
Bosler	20,611	11,647	8,964
Cleve J. Fredrickson	14,370	6,804	7,566
John Graham	1,796	1,796	-
Joseph T. Simpson	12,573	9,579	2,994
New Cumberland	5,389	5,388	1
Shippensburg	<u>12,573</u>	<u>5,238</u>	<u>7,335</u>
Total health subsidy distribution	<u>\$ 70,904</u>	<u>\$ 44,044</u>	<u>\$ 26,860</u>
Online fines and fees			
Amelia S. Givin	\$ 632	\$ 814	\$ (182)
Bosler	3,434	2,491	943
Cleve J. Fredrickson	7,666	6,128	1,538
John Graham	205	124	81
Joseph T. Simpson	2,324	2,865	(541)
New Cumberland	1,906	1,205	701
Shippensburg	<u>1,492</u>	<u>978</u>	<u>514</u>
Total online fines and fees	<u>17,659</u>	<u>14,605</u>	<u>3,054</u>
Total expenditures	<u>\$ 4,803,501</u>	<u>\$ 4,693,586</u>	<u>\$ 109,915</u>