

Audited
Financial
Statements

December 31,
2014

Cumberland County Library System

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Cumberland County Library System
Carlisle, Pennsylvania

We have audited the accompanying financial statements of the governmental activities and each major fund of Cumberland County Library System as of and for the year ended December 31, 2014, 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, 2014, 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 2013 financial statements, and we have expressed unmodified audit opinions on those audited financial statements in our report dated July 9, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 15, the schedule of funding progress – OPEB on page 33, and budgetary comparison schedule – general fund on page 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library System's basic financial statements. The detailed budgetary comparison schedule – general fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.



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

The detailed budgetary comparison schedule – general fund is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
July 6, 2015

CUMBERLAND COUNTY LIBRARY SYSTEM
Management's Discussion and Analysis
December 31, 2014

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, 2014. The MD&A also includes a comparison of current year financial activities to the previous year.

1) CUMBERLAND COUNTY LIBRARY SYSTEM BACKGROUND:

The Cumberland County Library System Headquarters' mission is to plan, develop, coordinate and provide comprehensive public library services for residents through a cooperative network of eight public libraries that includes seven members and one branch facility.

The Library System serves residents of Cumberland County and three municipalities in Franklin County. It provides residents or real property owners of Cumberland County and the Shippensburg Area School District with a library card that may be used to borrow materials from any Cumberland County public library at no charge. The System's member libraries include Amelia S. Givin Free Library, Bosler Memorial Library, Cleve J. Fredricksen Library and its East Pennsboro Branch, John Graham Public Library, Joseph T. Simpson Public Library, New Cumberland Public Library and Shippensburg Public Library.

The Library System Headquarters is an independent agency of Cumberland County government that is designated to provide library services. In accordance with the Pennsylvania Library Code, the County Commissioners appoint a Library System board to administer the agency. The Library System Board has exclusive control of county library tax funds and funds received from Commonwealth Libraries. These funds, and any other funds appropriated for library services, are disbursed under the direction of the Library System Board for the establishment or maintenance of library services.

This audit report provides information on the Library System Headquarters' financial activities. As an independent agency, the Library System Headquarters is not considered a component unit of County government operations. Thus, the Library System Headquarters is audited independently from County government operations as well as member library operations. Each Cumberland County Library System member library is also independently audited.

Overview of 2014 Activities

In 2014, the Library System Headquarters' significant initiatives included:

Library Services Initiatives

1. **Library Technology Use Survey:** The library system administered an online Impact Technology Survey in October 2014. 4,182 people completed the survey. It showed that 53% of survey respondents reported using a public access computer or used the library's wireless network connection to access the Internet during the past 12 months. The survey found that 13% of the library system's public access technology users are low income (below 200% of the poverty line).

When asked about how they used the library's computers, Internet and wireless networks:

- 21% said they had used the technology for educational purposes;
- 18% had used it for employment or career purposes;
- 16% had used it for health or wellness purposes;
- 16% had used it for civic engagement purposes;
- 22% had used it for social purposes and activities;
- 16% had used it for eCommerce activities;
- 4% had used it for business-related purposes; and
- 14% had used it for eGovernment purposes.

When asked about their level of satisfaction with public access technology at Cumberland County Library System, 81% of public access technology users said that they were either satisfied or very satisfied with the access provided at the library. Other findings revealed significant customer outcomes in the areas of education, social inclusion, employment, health and wellness, civic engagement, business, eCommerce and eGovernment.

2. **Summer Reading Program:** 2014 was a record breaking year for the annual summer reading program with 7,541 youth – including 734 teens — registered. This was a 6% increase in overall registrations from the prior year, and the highest number of registrants ever recorded in Cumberland County. Elementary school age registrations increased even more: 12%. An outcome-based survey of parents of children who participated found that:
 - 86% of parents surveyed said that the summer reading program helped their child enjoy reading more.
 - 68% of parents said that the summer reading program helped their child enjoy reading a wider variety of books.
 - 75% of parents said that the program helped their child read books more easily.
3. **Digital Collections:** eBook and eAudio circulation again increased significantly when compared to prior years (33% and 61% respectively). However, while digital collection use grows, it still is just 3% of overall circulation.

Information Technology Initiatives

1. **Software Migration:** Following contract signing with Innovative Interfaces, Inc., the library system migrated from SirsiDynix Horizon library management software to Innovative's Sierra software platform in January 2015. (The new contract reduced the system's 7-year projected costs for by 19%, or \$114,138). Software modules were phased in throughout the year, so that by the close of 2014, only 59 open issues remained out of a total of 463 issues (87% closure rate). The remaining issues were targeted for resolution in 2015.
2. **Replacement Computers:** In accordance with the Library System's computer technology allocation and five-year technology life cycle policy, the system purchased 60 replacement staff computers that will be configured and deployed for staff use in early 2015.

Continuous Quality Improvement Initiatives

1. **Centralized Customer Notice Functions:** All customer notice functions were centralized at the system headquarters. This change was made to consolidate and reduce the cost and the number of notices that were emailed or mailed via U.S. mail to customers. Now, only one notice is generated by the system office, rather than having notices generated by each library that owns the items that are borrowed. This has saved both staff time and postage costs for member libraries. Several hundred thousand notices are distributed annually.
2. **Expanded Customer Self-Service Stations:** Using the library system's new library management software platform, the system increased the number of customer self-checkout stations from 5 to 9. Both customers and staff report that the stations are much easier to use, and 36% more transactions are completed by customers who use this equipment, thus reducing the amount of staff time needed to help customers with circulation transactions.
3. **Customer Self-Service for Interlibrary Loan Requests:** Using the library system's new library management software platform, the system now allows customers to enter and submit their own Interlibrary Loan Requests for materials not owned by CCLS libraries. Requests are processed and tracked automatically for both customers and library staff. This reduces staff time, and provides more streamlined service for customers.

Administrative and Financial Service Initiatives

1. **Foundation Fund Raising:** Working through the Cumberland County Library System Foundation the library system received \$39,905 for library programs and services across the county. Major gifts included:
 - **Children's Board Books:** A \$5,000 grant from the Land 'O Lakes Foundation allowed the library system's member libraries to purchase 594 board books for toddlers and infants, replacing slightly more than half of the books that had been borrowed 50 or more times. This has greatly improved the system's collections and made the books much more appealing for families to borrow.
 - **Children's Picture Books:** UGI Utilities, Inc. donated \$20,000 in Educational Improvement Tax Credit funds. Funds were used to purchase picture books for children in grades K-3 who participated in the summer reading program.
 - **Large Print Books:** Funds from the G. B. Stuart Foundation (\$5,500) and the Dermody Properties Foundation (\$1,000), allowed the purchase of about 287 new large print books for the STAR collection.

In addition to these 2014 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 2014, the network was comprised of 320 computers, including 23 servers, more than 142 computers for the public and 153 computers for staff, plus associated printers, scanners and other peripherals. The distribution of this equipment was directly related to member library service levels — ranging from 76 computers and associated peripherals at the system's largest library, Fredricksen, to eight at the system's smallest facility, East Pennsboro Branch.
2. 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 2014, the Library System's web catalog was searched more than 2.5 million times and the system's Public Internet computers were used more than 170,000 times. Online research database use also increased dramatically. The number of online research articles used by customers (remote and in-library) was 234,295, a 120% increase in searches.
3. **Collection Services:** To provide library users with in-depth access to collections and materials, the System Headquarters provided its member libraries with acquisitions, cataloging, processing and bibliographic database maintenance services for newly purchased or donated library materials. Not only did this centralized service reduce costs for materials and supplies, it also reduced costs for member libraries to employ and train Collection Services staff. In 2014, 28,147 items were added to the Library Systems collections – a 14% drop from the previous year.
4. **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 2014, over 2.6 million items were borrowed by library card members. This was 4% less than the prior year.
5. **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 93 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 50 nursing homes, senior centers, assisted and independent living residences in the county. In 2014, the number of items borrowed (10,925 items) by homebound individuals declined 1%.

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Management's Discussion and Analysis
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6. **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 technology skills. As part of its training program, it also maintained an Intranet website to support staff and board member activities. In 2014, 429 staff recorded 1,779 learning hours.
7. **Administrative & Financial Services:** Administrative and financial services fell into three primary areas: 1) Library Service Planning, Coordination & Evaluation; 2) Public Relations; 3) Finance.

2) FINANCIAL HIGHLIGHTS:

In 2014, the library system's total revenues were \$4,391,047, an increase of 1.7% or \$74,145 from the prior year. Its total expenditures were \$4,578,683, an increase of \$30,397 or 0.6% from the prior year. The change in net position was (\$187,636) as compared to (\$231,384) for the prior budget year.

The fund balance as of December 31, 2014 was \$3,495,693 and was comprised of four components:

1. **90-Day Contingency Fund Balance of \$1,181,453:** The purpose of the 90-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 90-Day Contingency Funds are replaced. The balance needed in this fund is based upon 90 days of average General Fund budgeted expenditures, including those amounts budgeted for member library distributions.
2. **Strategic Development Fund Balance \$1,502,152:** As agreed upon with the County Commissioners in July 2004¹, the purpose of the Strategic Development Fund is to yield income for the Cumberland County Library System's operating purposes or to strategically reinvest principle to 1) yield more funding; 2) produce new cost efficiencies; or 3) address critical deficiencies in library services. Any expenditures of the fund's principle must be approved by the Library System Board and be acceptable to the Board of Commissioners. The Library System Board anticipates drawing upon these funds over the next two years to offset projected deficits for library services.

¹ As a result of the Cumberland County Commissioners' foresight in requesting that growth in the combined expenditure of Cumberland County library tax funds and Commonwealth of Pennsylvania Public Library Subsidy funds be limited to 5% or less per year beginning in 2004, the Library System Board had accumulated \$2,557,467 in its Strategic Development Fund six years later in 2010.

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3. **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.
4. **Unassigned Fund Balance of \$699,589:** 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 15% of the system's total operating expenditures – an indicator of sound financial practices.

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.
- c. *Notes to Financial Statements* — Explains:
 1. Summary of significant accounting policies;
 2. Cash and cash equivalents and investments;
 3. Accounts Receivable;
 4. Capital Assets;
 5. Long-term Liabilities
 6. Other Postemployment Benefits;
 7. Pension plan;
 8. Fund Balance;
 9. Related party transactions;
 10. Risk management; and
 11. Commitments and contingencies.
- d. *Other Postemployment Benefit Plan* — Provides unaudited information of funding progress on the postemployment benefit plan.
- e. *Budgetary Comparison Schedule - General Fund (Unaudited)* — Provides information on actual program and general revenues and expenditures as compared to budget.
- f. *Detailed Budgetary Comparison Schedule - General Fund* — Provides supplementary information that compares detailed budgeted and actual revenues and expenditures.

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4. CONDENSED COMPARATIVE FINANCIAL STATEMENTS:

Statement of Net Position	Amount		Percentage	
	2014	2013	2014	2013
Assets				
Current Assets	\$ 3,656,711	\$ 3,985,933	76%	78%
Noncurrent assets	1,168,979	1,134,585	24%	22%
Total Assets	\$ 4,825,690	\$ 5,120,518	100%	100%
Liabilities				
Current liabilities	\$ 186,459	\$ 266,758	20%	26%
Long-term liabilities	726,438	753,331	80%	74%
Total Liabilities	\$ 912,897	\$ 1,020,089	100%	100%
Net Position				
Net investment in capital assets	\$ 458,989	\$ 395,757	12%	10%
Unrestricted	3,453,804	3,704,672	88%	90%
Total Net Position	\$ 3,912,793	\$ 4,100,429	100%	100%
Total Liabilities and Net Position	\$ 4,825,690	\$ 5,120,518		

Statement of Activities	Amount		Percentage	
	2014	2013	2014	2013
Revenues				
Program Revenues				
Federal funds	\$ -	\$ 5,416	0%	0%
State Funds	1,039,331	1,039,331	24%	24%
Grant funds	89,580	-		
Other state and county revenues	584	535	0%	0%
Total Program Revenues	\$ 1,129,495	\$ 1,045,282	26%	24%
General Revenues				
County tax revenue	3,231,170	3,228,089	74%	75%
Interest	14,321	16,261	0%	0%
Donations	2,923	8,692	0%	0%
Fines (Online Payments)	12,080	17,328	0%	0%
Miscellaneous	1,058	1,250	0%	0%
Total General Revenues	\$ 3,261,552	\$ 3,271,620	74%	76%
Total Revenues	\$ 4,391,047	\$ 4,316,902	100%	100%
Program Expenses				
Wages and benefits	\$ 832,818	\$ 830,075	18%	18%
Collection	151,816	135,755	3%	3%
Debt Service	22,932	22,739	1%	0%
Other operating	452,075	440,728	10%	10%
Member library distributions	3,119,042	3,118,989	68%	69%
Total expenses	\$ 4,578,683	\$ 4,548,286	100%	100%
Change in Net Position	(\$ 187,636)	(\$ 231,384)		

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, 2014, its assets stood at \$4,825,690 compared to the prior year's \$5,120,518.

The Library System Headquarters completed the year with an Unassigned Fund Balance of \$699,589. This is 15% of the system's total operating expenditures or 1.68 months of regular general fund operating expenditures. The Government Finance Officers Association recommends a minimum of two months of regular general fund operating expenditures.²

In addition, the Library System Headquarters had a fully funded 90-day Contingency Fund Balance of \$1,181,453. This committed fund balance includes not only the Library System Headquarters' 90-day operational cash needs, but also a cash reserve for 90-days of member library distributions.

Finally, the Library System Headquarters also had a committed Strategic Development Fund balance of \$1,502,152. As requested by the Cumberland County Commissioners in 2004, the Library System Board established this fund with the proceeds of any significant net funding increases from county and state public library subsidy funds during the period 2004-2014. These funds were to be used for three purposes:

- a. *Fully Fund Library System's 90-day Contingency Fund* — Accomplished in 2005.
- b. *Maintain Library Services* — The library system board has carefully stewarded the funds available for library services. Since 2004, the combined total use of Cumberland County Library Tax, Commonwealth of Pennsylvania Public Library Subsidy funds and Statewide Library Card Reimbursements was either increased or **(decreased)** by:
 - (1) 2.88% in 2004
 - (2) 1.90% in 2005;
 - (3) 0.23% in 2006;
 - (4) 13.61% in 2007 (Note: The increase was the result of a 20% increase in Commonwealth of Pennsylvania Public Library Subsidy Funds.)
 - (5) **(0.12%)** in 2008;
 - (6) **(0.89%)** in 2009;
 - (7) **(3.63%)** in 2010;
 - (8) 5.18% in 2011 (\$80, 288 was transferred to the operating fund from the Strategic Development Fund);
 - (9) 4.18% in 2012 (\$265,000 was transferred to the operating fund from the Strategic Development Fund); and
 - (10) 2.17% in 2013 (\$310,027 was transferred to the operating fund from the Strategic Development Fund).
 - (11) 2.03% in 2014 (\$400,000 was transferred to the operating fund from the Strategic Development Fund).

² Gauthier, Stephen J., "GFOA Updates Best Practice on Fund Balance," *Government Finance Review*. December 2009, page 69.

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- c. *Establish Strategic Development Fund* — The purpose of the Strategic Development Fund is to yield income for operating purposes, or to strategically reinvest principal to yield more funding, produce new cost efficiencies, or address critical deficiencies in library services.

The agreement also stipulates that while any income from the Strategic Development Fund may be used for operating purposes, expenditures from the fund's principal would be agreed upon by the Library System Board and the Board of Commissioners.

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 Strategic Development funds to prevent a budget deficit for library services.

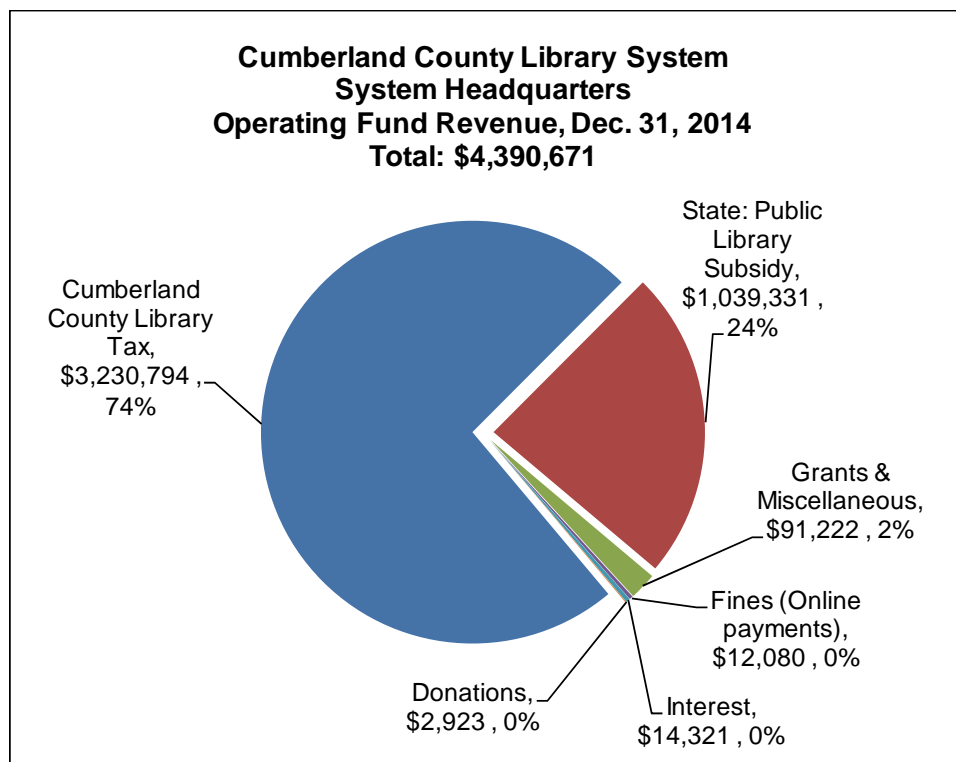
6) BUDGETARY ANALYSIS:

Revenues

Overall, the library system's total revenues were \$4,390,671, an increase of 1.6% or \$70,311 from the prior year. This was \$65,794 more than budgeted and was primarily due to successful grant applications (\$89,580 more than budgeted) carried out through the Cumberland County Library System Foundation.

The \$65,794 gain was offset by unexpected decreases in:

- Cumberland County library tax receipts (\$11,652 less than budgeted);
- Donations (\$9,577 less than budgeted); and
- Fine receipts (\$7,920 less than budgeted).



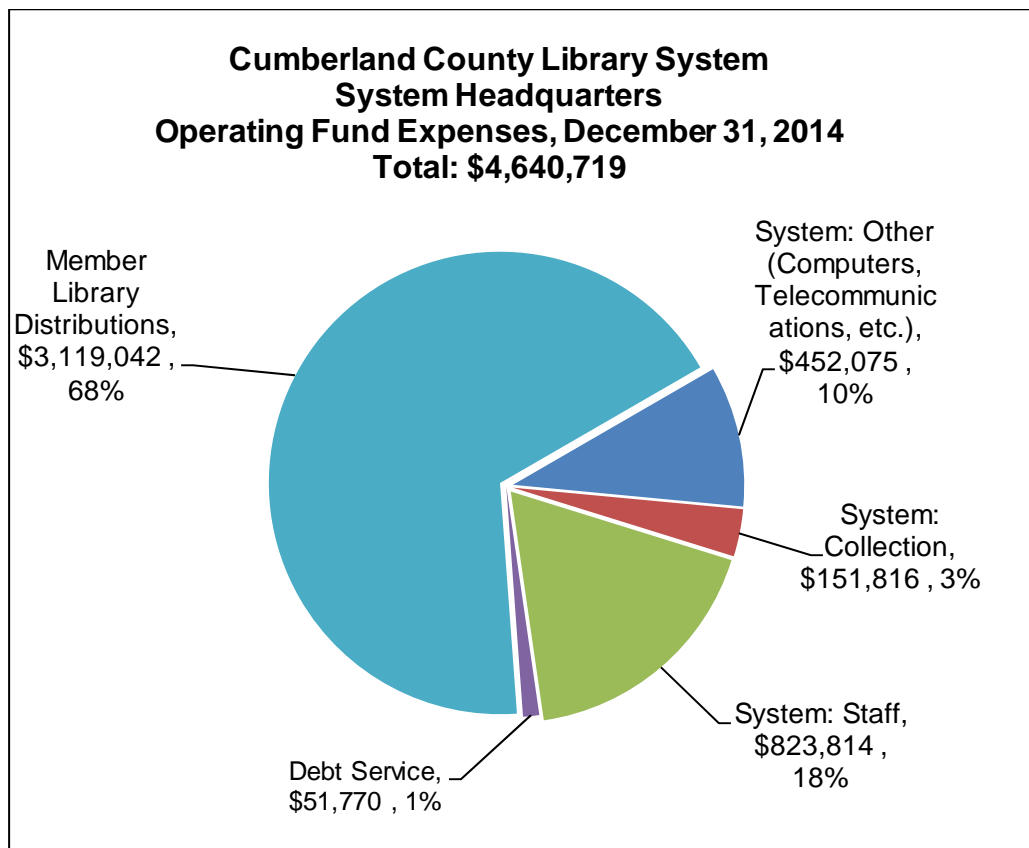
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Expenditures

Overall, the library system's total expenditures of \$4,640,719, decreased \$659,784 or 12% from the prior year. Member library distributions of \$3,119,042 increased by \$53 or 0%.

The Library System's expenditures were \$85,094 less than budgeted. This was due to:

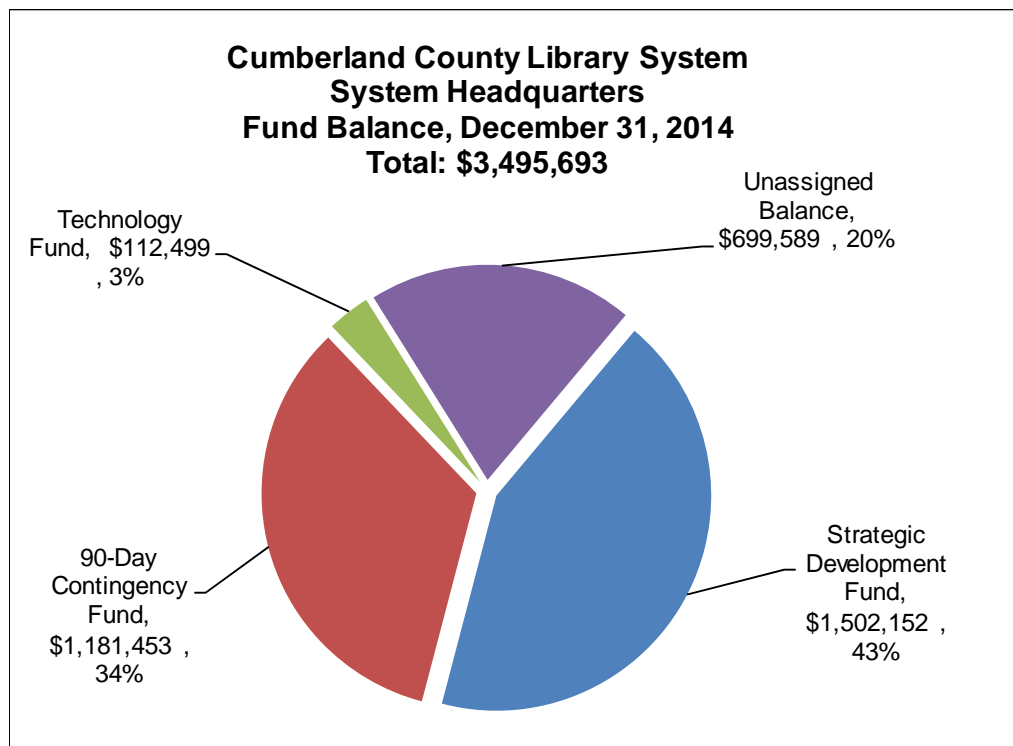
- Personnel costs were \$29,918 under budget due to unexpected staff vacancies.
- Collection expenditures were \$23,995 under budget due to lower than expected purchases of supplies to process library materials and unexpected reductions in online reference resources.
- Other operating expenditures were \$23,884 under budget due to delayed consultant invoices (which will be paid out of the 2015 budget) and lower than expected utility costs.



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Fund Balance

- The Library System Board utilized \$400,000 from the Strategic Development Fund, using it as if it were operating revenue in 2014. This was 9% of the Library System's 2014 operating revenue. It now has a balance of \$1,502,152.
- The Library System Board added \$18,646 to its 90-Day Contingency Fund so that it was fully funded. It now has a balance of \$1,181,453.
- The Library System Board used \$25,000 of its Technology Fund. It 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 \$699,589 Unassigned Fund Balance for its 2015 operating budget cash flow needs.



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7) CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY:

Total Capital Assets (net of depreciation) were \$1,168,979 at December 31, 2014. This was a \$34,394 increase in total capital assets.

Capital Assets, Dec. 31, 2014 (net of depreciation)	2014	2013	Change
Exhaustible collection	14,325	20,257	(\$5,932)
Property and equipment	1,154,654	1,114,328	\$40,326
Total Capital Assets	1,168,979	1,134,585	\$34,394

8) FACTORS BEARING ON THE SYSTEM'S FUTURE:

County Library Tax revenues are expected to grow less than 2% in 2015.

State Public Library Subsidy revenues will remain flat in 2015. Current budget proposals for 2016 call for the Public Library Subsidy to remain flat.

In 2014, the Library System Board adopted a new five-year plan for county wide library services for the period 2015-2017. A copy may be found at: <http://cumberlandcountylibraries.org/plan>.

In 2015, the Cumberland County Library System Board in partnership with the Cumberland County Commissioners, engaged Monica Gould, MBA, CMC of Strategic Consulting Partners to develop and facilitate a consensus-building process regarding the future of library services in Cumberland County. The purpose of this process is for the County Commissioners and the Library System Board to reach consensus on the Library System's vision, roles and services, as well as a business model that includes long-term, sustainable funding strategies for the next three to five years. To learn more about this process and its results, visit http://CumberlandCountyLibraries.org/Building_Consensus.

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 2014, the Foundation received \$41,272 in gifts, donations, grants and Educational Income Tax Credit support. Additional information about its activities may be found at: <http://cclsfoundation.org>.

9) QUESTIONS ABOUT THE LIBRARY SYSTEM'S FINANCIAL MANAGEMENT:

To provide additional accountability for the use of public tax dollars, the Library System files a comprehensive annual report with Commonwealth Libraries each year that reports various financial and service statistics. This document is available from Commonwealth Libraries in Harrisburg, or from the Library System Headquarters in Carlisle, PA.

If you have questions about this Management Discussion and Analysis, the Commonwealth Libraries annual report, or need additional information, contact the Cumberland County Library System at 1601 Ritner Highway, Suite 100, Carlisle, PA 17013 or by phone at (717) 240-6175.

CUMBERLAND COUNTY LIBRARY SYSTEM
Statement of Net Position and Governmental Fund Balance Sheet
December 31, 2014
(With Summarized Financial Information for December 31, 2013)

	General Fund	Adjustments	Governmental Activities Statement of Net Position	
			2014	2013
Assets				
Current assets				
Cash and cash equivalents	\$ 3,501,302	\$ -	\$ 3,501,302	\$ 3,762,524
Accounts receivable	<u>117,296</u>	<u>38,113</u>	<u>155,409</u>	<u>223,409</u>
Total current assets	<u>3,618,598</u>	<u>38,113</u>	<u>3,656,711</u>	<u>3,985,933</u>
Noncurrent assets				
Exhaustible collection (net of accumulated depreciation)	-	14,325	14,325	20,257
Property and equipment (net of accumulated depreciation)	<u>-</u>	<u>1,154,654</u>	<u>1,154,654</u>	<u>1,114,328</u>
Total noncurrent assets	<u>-</u>	<u>1,168,979</u>	<u>1,168,979</u>	<u>1,134,585</u>
Total assets	<u>\$ 3,618,598</u>	<u>\$ 1,207,092</u>	<u>\$ 4,825,690</u>	<u>\$ 5,120,518</u>
Liabilities				
Current liabilities				
Accounts payable	\$ 17,605	\$ -	\$ 17,605	\$ 102,081
Accrued payroll and benefits	105,300	-	105,300	100,374
Compensated absences	-	33,791	33,791	35,465
Long-term liabilities: Due within one year				
Capital lease payable	<u>-</u>	<u>29,763</u>	<u>29,763</u>	<u>28,838</u>
Total current liabilities	<u>122,905</u>	<u>63,554</u>	<u>186,459</u>	<u>266,758</u>
Long-term liabilities				
OPEB liability	-	19,725	19,725	18,883
Compensated absences	-	26,486	26,486	24,458
Capital lease payable	<u>-</u>	<u>680,227</u>	<u>680,227</u>	<u>709,990</u>
Total long-term liabilities	<u>-</u>	<u>726,438</u>	<u>726,438</u>	<u>753,331</u>
Total liabilities	<u>122,905</u>	<u>789,992</u>	<u>912,897</u>	<u>1,020,089</u>
Fund balance/net position				
Committed fund balance				
Strategic development	1,502,152	(1,502,152)	-	-
90-day contingency	1,181,453	(1,181,453)	-	-
Technology	112,499	(112,499)	-	-
Unassigned fund balance	<u>699,589</u>	<u>(699,589)</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>3,495,693</u>	<u>(3,495,693)</u>	<u>-</u>	<u>-</u>
Net position				
Net investment in capital assets	-	458,989	458,989	395,757
Unrestricted	<u>-</u>	<u>3,453,804</u>	<u>3,453,804</u>	<u>3,704,672</u>
Total net position	<u>-</u>	<u>3,912,793</u>	<u>3,912,793</u>	<u>4,100,429</u>
Total liabilities and fund balance/net position	<u>\$ 3,618,598</u>	<u>\$ 1,207,092</u>	<u>\$ 4,825,690</u>	<u>\$ 5,120,518</u>

CUMBERLAND COUNTY LIBRARY SYSTEM
Statement of Activities and Governmental Fund Revenues, Expenditures, and
Changes in Fund Balance
Year Ended December 31, 2014
(With Summarized Financial Information for the Year Ended December 31, 2013)

	General Fund	Adjustments	Governmental Activities Statement of Activities	
			2014	2013
Program expenditures/expenses				
Personnel	\$ 823,814	\$ 9,004	\$ 832,818	\$ 830,075
Collection	151,816	-	151,816	135,755
Other operating expenditures	494,277	(42,202)	452,075	440,728
Debt service				
Principal	28,838	(28,838)	-	-
Interest expense	22,932	-	22,932	22,739
Member library distributions				
State public library subsidy	688,218	-	688,218	688,218
Cumberland County tax	2,378,149	-	2,378,149	2,378,154
Health subsidy distribution	43,373	-	43,373	37,292
Online fines and fees	9,302	-	9,302	15,325
Total expenditures/expenses	<u>4,640,719</u>	<u>(62,036)</u>	<u>4,578,683</u>	<u>4,548,286</u>
Program revenues				
Capital grants				
Federal LSTA grants	-	-	-	5,416
Operating grants				
State public library subsidy	1,039,331	-	1,039,331	1,039,331
Other grants	89,580	-	89,580	-
Other state and county revenue	<u>584</u>	<u>-</u>	<u>584</u>	<u>535</u>
Total program revenues	<u>1,129,495</u>	<u>-</u>	<u>1,129,495</u>	<u>1,045,282</u>
Net program revenue			<u>\$ (3,449,188)</u>	<u>\$ (3,503,004)</u>
General revenues				
Cumberland County tax revenue	\$ 3,230,794	\$ 376	\$ 3,231,170	\$ 3,228,089
Interest	14,321	-	14,321	16,261
Donations	2,923	-	2,923	8,692
Fines	12,080	-	12,080	17,328
Miscellaneous	<u>1,058</u>	<u>-</u>	<u>1,058</u>	<u>1,250</u>
Total general revenues	<u>3,261,176</u>	<u>376</u>	<u>3,261,552</u>	<u>3,271,620</u>
Revenues and other financing sources over (under) expenditures/change in net position	(250,048)	62,412	(187,636)	(231,384)
Fund balance/net position - beginning of year	<u>3,745,741</u>	<u>354,688</u>	<u>4,100,429</u>	<u>4,331,813</u>
Fund balance/net position - end of year	<u>\$ 3,495,693</u>	<u>\$ 417,100</u>	<u>\$ 3,912,793</u>	<u>\$ 4,100,429</u>

CUMBERLAND COUNTY LIBRARY SYSTEM

Notes to Financial Statements

December 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Cumberland County Library System (the "Library System") was created by the County of Cumberland. The Library System has oversight responsibility and acts as a conduit for the distribution of funds to the public libraries located in the County of Cumberland. The Library System receives funding from federal, state and local governmental entities. All operations of the Library System are included in the reporting entity.

Reporting Entity

Governmental Accounting Standards Board (GASB) Statements define the criteria used to determine the composition of the reporting entity. These standards require that the reporting entity include (1) the primary government; (2) organizations for which the primary government is financially accountable; (3) organizations that are fiscally dependent on the primary government and a financial benefit or burden exists; and (4) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The County of Cumberland has evaluated the Library System to determine whether the Library System should be included as a component unit of the County. The Library System is not considered a component unit of the County of Cumberland due to the fact the County is not entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the Library System.

The Cumberland County Library System Foundation was formed in 2007 for the purpose of supporting projects related to the Library System programs and the libraries of the Library System. The Foundation is not considered a component unit of the Library System for financial reporting purposes.

The Library System's member libraries (Amelia S. Givin Free Library, Bosler Memorial Library, Cleve J. Fredrickson Library, East Pennsboro Branch, John Graham Public Library, Joseph T. Simpson Public Library, New Cumberland Public Library, and Shippensburg Public Library) were evaluated for control by, or dependency on, the Library System to determine whether they should be included in the reporting entity.

Control or dependence is demonstrated by selection of governing authority and financial interdependency. The significant factors for excluding the Library System as a component unit of the County of Cumberland and the seven (7) member libraries as component units of the Library System are the lack of control or dependency in each case.

Basis of Presentation

The Library System accounts for the funds existing under its jurisdiction with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The Library System's resources are allocated to and accounted for in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled. The funds of the Library System are as follows:

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements
December 31, 2014

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, 2014
Fund balance, Governmental Funds	\$ 3,495,693
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the general fund. The \$ 1,982,549 represents the entire book value of the Library System's governmental capital assets less \$ 813,570 of accumulated depreciation.	1,168,979
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.	38,113
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	(709,990)
Compensated absences	(60,277)
OPEB liability	(19,725)
	(789,992)
Net position, Governmental Activities	\$ 3,912,793

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements
December 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

	Year Ended December 31, 2014
Change in fund balance, Governmental Funds	\$ (250,048)
<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	141,873
Depreciation expense	(99,671)
	42,202
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.	376
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 underdepreciated cost of the capital assets disposed of.	(7,808)
Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	28,838
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	(354)
OPEB liability	(842)
	(1,196)
Change in net position, Governmental Activities	\$ (187,636)

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, 2014

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.

Other Postemployment Benefits Other Than Pensions

The GASB establishes standards for the measurement, recognition, and display of other postemployment benefit expenditures and related liabilities, note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. See Note 6 for details on the other postemployment benefits offered by the Library System.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Library System does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Library System does not have any items that qualify for reporting in this category.

Net Position – Government-wide Financial Statements

In the government-wide financial statements, net position is classified in the following categories:

Net investment in capital assets – This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balance of bonds, mortgages, notes, accounts payable or other borrowings that are attributable to the acquisition, construction or improvement of those capital assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, a portion of that debt is included in the same net position component as the unspent proceeds. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position – Government-wide Financial Statements (Continued)

Restricted – This component of net position consists of restricted assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources related to those assets. These restrictions could include constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

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

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

Fund Balance – Governmental Fund Financial Statements

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance – Governmental Fund Financial Statements

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

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

Minimum Fund Balance Policy

The Library System strives to maintain a minimum unassigned fund balance of 14 days of the current average General Fund budgeted expenditures (including those amounts budgeted for member distributions) and a minimum committed fund balance of 90 days in the 90-day Contingency Fund. If the minimum unassigned fund balance of 14 days is not met, this will serve as an authorization “trigger” for the drawdown of the 90-day Contingency Fund.

Fund Balance Flow Assumption

Sometimes the Library System will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. The Library System’s policy is to use unassigned resources first, unless the Board has approved use of restricted, committed, or unassigned fund balances for certain defined expenditures meeting the classification criteria.

Operations and Concentrations

The Library System received approximately 97% of its total program and general revenues from the Commonwealth of Pennsylvania and Cumberland County for the year ended December 31, 2014. Any reductions in funding could have a significant impact on the Library System.

Reclassifications of Prior Year Financial Statements

Certain reclassifications have been made to the prior year financial statements in order to remain consistent with current year classifications.

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements
December 31, 2014

NOTE 2 CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

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

Custodial credit risk is the risk that in the event of a bank failure, the Library System's deposits may not be returned to it. The Library System does not have a formal policy regarding custodial credit risk for deposits. However, the Library System requires all deposits in excess of FDIC insurance coverage to be collateralized by the depository institution with approved collateral as provided by law. At December 31, 2014, the Library System had deposit balances in the amount of \$ 3,503,245, of which \$ 500,000 was insured by FDIC and \$ 3,003,245 was collateralized under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly. Under this law, financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of Federal Depository Insurance limits. The Library System is exposed to custodial credit risk because the collateral securities held by the bank's agents are not in the Library System's name.

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable as of December 31, 2014 are as follows:

Cumberland County Library Tax - 2014	\$ 105,551
Member libraries	<u>49,858</u>
Receivables - full accrual basis	155,409
Less revenues not received in 75 days	<u>(38,113)</u>
Receivables - modified accrual basis	<u><u>\$ 117,296</u></u>

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements
December 31, 2014

NOTE 4 CAPITAL ASSETS

Capital asset activity for the System consists of the following as of the year ended December 31, 2014:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
<i>Capital assets being depreciated:</i>				
Exhaustible collection				
Cost				
STAR book collection	36,788	-	(6,168)	30,620
STAR AV collection	21,442	-	(6,009)	15,433
	<u>58,230</u>	<u>-</u>	<u>(12,177)</u>	<u>46,053</u>
Accumulated depreciation				
STAR book collection	(21,445)	(4,116)	6,168	(19,393)
STAR AV collection	(16,528)	(1,816)	6,009	(12,335)
	<u>(37,973)</u>	<u>(5,932)</u>	<u>12,177</u>	<u>(31,728)</u>
Exhaustible collection net of accumulated depreciation	<u>20,257</u>	<u>(5,932)</u>	<u>-</u>	<u>14,325</u>
Property and equipment				
Cost				
Leasehold improvements	996,026	-	-	996,026
Office equipment	37,860	-	-	37,860
Intralibrary network, equipment, hardware and software	847,993	141,873	(87,256)	902,610
	<u>1,881,879</u>	<u>141,873</u>	<u>(87,256)</u>	<u>1,936,496</u>
Accumulated depreciation				
Leasehold improvements	(49,801)	(49,801)	-	(99,602)
Office computers and equipment	(15,695)	(6,240)	-	(21,935)
Intralibrary network, equipment, hardware and software	(702,055)	(37,698)	79,448	(660,305)
	<u>(767,551)</u>	<u>(93,739)</u>	<u>79,448</u>	<u>(781,842)</u>
Property and equipment net of accumulated depreciation	<u>1,114,328</u>	<u>48,134</u>	<u>(7,808)</u>	<u>1,154,654</u>
Total capital assets being depreciated, net	<u>\$ 1,134,585</u>	<u>\$ 42,202</u>	<u>\$ (7,808)</u>	<u>\$ 1,168,979</u>

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements
December 31, 2014

NOTE 5 LONG-TERM LIABILITIES

The changes in long-term liabilities during the year ended December 31, 2014 were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Current	Long-Term
Governmental activities						
Capital Lease Payable	\$ 738,828	\$ -	\$ (28,838)	\$ 709,990	\$ 29,763	\$ 680,227
Compensated Absences	59,923	92,147	(91,793)	60,277	33,791	26,486
Total	<u>\$ 798,751</u>	<u>\$ 92,147</u>	<u>\$ (120,631)</u>	<u>\$ 770,267</u>	<u>\$ 63,554</u>	<u>\$ 706,713</u>

Capital Lease Payable

On April 15, 2013, the Library System entered into an agreement with Cumberland County for the relocation of its main office. During 2012, Cumberland County agreed to renovate a building that would be occupied by both the County and the Library System. The Library System paid for a portion of the costs to renovate the building totaling \$ 228,167. The Library System's portion of the additional costs incurred by Cumberland County was \$ 1,035,401. This will be paid back over the next twenty years, starting on January 1, 2013, with annual payments of \$ 51,770. The capital lease is noninterest bearing; therefore a discount rate of 3.16% was imputed to determine the capital lease principal balance and corresponding leasehold improvement of \$ 767,859. The lease is considered capital due to the fact the lease term is at least seventy-five percent of the asset's estimated economic life. The agreement states that either party may terminate the lease agreement at any time, with or without cause, after year 3, upon providing 24 months prior written notice to the other party. At this time, the possibility of cancellation is considered remote; therefore, the lease is capitalized. If this lease agreement was terminated, the Library system would not be liable for any remaining payments. If this were to occur, the remaining carrying value of the leasehold improvement asset and this capital lease would be written off and any difference would be recorded as gain or loss on disposal of asset at that time.

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

Fiscal Year	Principal	Interest	Total
2015	\$ 29,763	\$ 22,007	\$ 51,770
2016	30,717	21,053	51,770
2017	31,702	20,068	51,770
2018	32,718	19,052	51,770
2019	33,767	18,003	51,770
2019 - 2023	185,788	73,062	258,850
2024 - 2028	217,543	41,307	258,850
2029 - 2032	147,992	7,318	207,080
	<u>\$ 709,990</u>	<u>\$ 221,870</u>	<u>\$ 983,630</u>

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

Compensated Absences

All Library System employees are employed by the County of Cumberland. The County pays all payroll and related items, which the Library System reimburses the County for the Library System's portion each month. In accordance with County of Cumberland policies, the Library System's full-time employees may accumulate unused vacation time, up to a maximum of 225 hours, payable upon termination. Until June 1997, full-time Library System employees could accumulate unused sick days up to a maximum of 260 days. Upon termination, employees were paid one-half of accumulated sick days not to exceed 45 days. During 1997, the County adopted a new sick leave policy. Accumulated balances as of June 30, 1997 were carried forward; however, any sick days earned after that date do not accumulate and unused days are paid at half the daily pay rate to employees near the end of the year. Employees may accumulate a maximum of 32 hours of compensatory time. All hours exceeding the 32 hour limit are paid at the appropriate rate.

The executive director, technical services coordinator, automation services coordinator, training services coordinator, and technical services librarian are exempt from compensatory time under the Fair Labor Standards Act. The County renders a monthly bill for wages, benefits and related expenses.

NOTE 6 OTHER POSTEMPLOYMENT BENEFITS

Plan Description

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

To be eligible to receive benefits of the health insurance plan, a retiree must be receiving annuity payments from the Cumberland County Retirement Plan. The County Commissioners established the Plan and may amend the Plan at any time. The County/Library System is under no statutory or contractual obligation to provide this post-employment benefit.

While retirees opting to participate are asked to pay 100% of their premium, that amount is less than the Library System's actual cost to provide health care coverage to retirees. The premium amount retirees pay is a blended rate for covering both active and retired Plan members. The fact that the blended rate that retirees pay is less than the actual cost of covering the retired members and their beneficiaries results in what is known as an "implicit rate subsidy" by the Library System, which gives rise to the benefit.

Funding Policy

The Library System funds Plan liabilities on a "pay-as-you-go" basis, and has not established an OPEB trust fund to accumulate assets to fund Plan obligations. The Library System has no statutory or contractual obligation to fund the Plan and only does so at the Library System's discretion. The Library System funds the implicit rate subsidy through the payment of health insurance premiums on a pay-as-you-go basis.

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements
December 31, 2014

NOTE 6 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation

The Library System's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Library System's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Library System's net OPEB obligation to the plan:

Annual required contribution (ARC)	\$ 1,586
Estimated interest on net OPEB obligation	755
Estimated adjustment to ARC	<u>(1,092)</u>
Annual OPEB Cost	1,249
Employer contributions - estimated	<u>(407)</u>
Increase in net OPEB obligation	842
Net OPEB obligation - beginning of the year	<u>18,883</u>
Net OPEB obligation - end of the year	<u><u>\$ 19,725</u></u>

The Library System's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three years was as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 1,249	32.6%	\$ 19,725
2013	\$ 1,269	12.2%	\$ 18,883
2012	\$ 4,609	7.8%	\$ 17,769

Funding Status of Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the plan had the following funded status and progress:

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / (c))
1/1/2014	\$ -	\$ 12,018	\$ 12,018	0%	\$ 630,146	1.9%

NOTE 6 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information in the future, about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Among the actuarial methods and assumptions used in the actuarial valuation are: (a) the projected unit credit cost method, (b) amortization of the unfunded actuarial accrued liability over 30 years, (c) a 4 percent discount rate based on an assumed 3 percent general inflation rate (this is assumed to be the long-term expected rate of return on non-Plan assets), (d) a health care inflation rate that begins at 6.1 percent trending to 3.8 percent, (e) the amortization method for the most recent actuarial valuation is the level dollar method with an open period.

NOTE 7 PENSION PLAN

All full time employees of the Library System are employed by the County of Cumberland and are required to participate in the County of Cumberland Retirement Plan, a single employer defined benefit pension plan covered by the County Pension Law, Act 96 of 1971, of the General Assembly of the Commonwealth of Pennsylvania, as amended (The Act). The Library System contributed \$ 50,895 to the County of Cumberland Retirement Plan for its employees for the year ended December 31, 2014. In addition, Library System employees working more than 1,000 hours per year are required to defer a minimum of 5% of their salary to fund the pension plan.

The plan is included in the County of Cumberland financial statements and details of the Plan and six year historical trend information is maintained by the County.

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements
December 31, 2014

NOTE 8 FUND BALANCE

The Library System has the following committed fund balances which represent internal commitments for specific purposes on the use of a portion of fund balance.

Strategic Development

The purpose is to yield income for the Library System's operating purposes or to strategically reinvest principal to 1) yield more funding, 2) produce new cost efficiencies, or 3) address critical deficiencies in library services. It is anticipated that these funds will be used to offset projected operating fund deficiencies. The amount is based upon five-year financial projections which are used to determine a "cost to maintain services" increase each year. This increase (from both state aid and county library tax sources) is based upon factors such as Pennsylvania Library Code requirements; federal cost of living indices, book and periodical cost indices, etc. However, in accordance with its agreement with the County Commissioners, any increase in state and county support is limited to a maximum of 5% per year.

If the Library System wants to go beyond the 5% cap, the need for the higher amount must be reviewed with the County Commissioners. Any income derived from the Strategic Development Fund may be budgeted for library system operating purposes as approved by the Library System Board.

90-Day Contingency

The purpose is to have funds available to replace unexpected shortfalls in budgeted income or to meet unexpected, yet necessary, expenditures. In the past, funding received from outside sources has been delayed, which results in the unassigned fund balance to fall below the minimum unassigned fund balance. The Library System approves the use of contingency funds to replace other funding that may be delayed to ensure that the administrative office and member libraries have sufficient funding to operate. Once the regular funding is received, the 90-Day Contingency Fund shall be replenished. The 90-Day Contingency is based on 90 days of average General Fund budgeted expenditures, including those amounts budgeted for member library distributions. Any income derived from the 90-Day Contingency may be budgeted for library system operating purposes as approved by the Library System Board.

Technology

The purpose is for future upgrade of the Library System's integrated server and software. The Library System maintains a long range technology replacement plan that is based on a five year life cycle for most computer equipment. Amounts placed in Technology are budgeted annually by the Library System Board and are based on the long term plans. Any income derived from the Technology may be budgeted for library system operating purposes as approved by the Library System Board.

NOTE 9 RELATED PARTY TRANSACTIONS

While the Library System is not a component unit of the County of Cumberland, the Library System employees are employed by Cumberland County does provide payroll and benefits services on behalf of Library System staff, which totaled \$ 823,814 for 2014. There is \$ 103,468 due to the County for payroll related expenditures at December 31, 2014.

CUMBERLAND COUNTY LIBRARY SYSTEM
Notes to Financial Statements
December 31, 2014

NOTE 10 RISK MANAGEMENT

The Library System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County of Cumberland maintains commercial insurance coverage, including directors' and officers' liability, covering each of those risks of loss on behalf of the Library System. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Library System. Settled claims have not exceeded this commercial coverage in any of the past 3 years.

NOTE 11 COMMITMENTS AND CONTINGENCIES

The Library System signed a contract in 2013 for software, services, hosting and all server related functions totaling \$ 554,144. Total costs incurred as of December 31, 2014 totaled \$ 130,795, leaving \$ 423,349 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, 2014, there were no claims that management feels would have a material effect on the Library System's financial position.

The Library System participates in numerous state and federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and review by the grantor agencies; therefore, any findings or adjustments by the grantor agencies could have an effect on the Library System.

REQUIRED SUPPLEMENTARY INFORMATION

CUMBERLAND COUNTY LIBRARY SYSTEM
OPEB (Other Postemployment Benefit Plan)
Schedule of Funding Progress (Unaudited)

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / (c))
1/1/2014	\$ -	\$ 12,018	\$ 12,018	0.00%	\$ 630,146	1.9%
1/1/2013	\$ -	\$ 10,782	\$ 10,782	0.00%	\$ 627,676	1.7%
1/1/2012	\$ -	\$ 33,471	\$ 33,471	0.00%	\$ 630,463	5.3%

CUMBERLAND COUNTY LIBRARY SYSTEM
Budgetary Comparison Schedule - General Fund (Unaudited)
Year Ended December 31, 2014

	Original/Final Budget	General Fund Actual	Variance with Final Budget Positive (Negative)
Program revenues			
Operating grants			
State public library subsidy	\$ 1,039,331	\$ 1,039,331	\$ -
Other local grants	-	89,580	89,580
Other state and county revenue	-	584	584
Total program revenues	<u>1,039,331</u>	<u>1,129,495</u>	<u>90,164</u>
General revenues			
Cumberland County tax revenue	3,242,446	3,230,794	(11,652)
Interest	10,500	14,321	3,821
Donations	12,500	2,923	(9,577)
Fines	20,000	12,080	(7,920)
Miscellaneous	100	1,058	958
Total general revenues	<u>3,285,546</u>	<u>3,261,176</u>	<u>(24,370)</u>
Total revenue	<u>4,324,877</u>	<u>4,390,671</u>	<u>65,794</u>
Program expenditures			
Personnel	853,732	823,814	29,918
Collection	175,811	151,816	23,995
Other operating expenditures	518,161	494,277	23,884
Debt service			
Principal	30,225	28,838	1,387
Interest	24,035	22,932	1,103
Member library distributions			
State public library subsidy	688,218	688,218	-
Cumberland county tax	2,378,149	2,378,149	-
Health subsidy distribution	39,813	43,373	(3,560)
Online fines and fees	17,669	9,302	8,367
Total expenditures	<u>4,725,813</u>	<u>4,640,719</u>	<u>85,094</u>
Change in fund balance	(400,936)	(250,048)	150,888
Fund balance - beginning of year	<u>3,662,485</u>	<u>3,745,741</u>	<u>83,256</u>
Fund balance - end of year	<u>\$ 3,261,549</u>	<u>\$ 3,495,693</u>	<u>\$ 234,144</u>

OTHER SUPPLEMENTARY INFORMATION

CUMBERLAND COUNTY LIBRARY SYSTEM
Detailed Budgetary Comparison Schedule - General Fund
Year Ended December 31, 2014

	Budget	Actual	Variance
Revenues			
Program revenues			
State public library subsidy	\$ 1,039,331	\$ 1,039,331	\$ -
Other grants	-	89,580	89,580
Other state and county revenue	-	584	584
Total program revenues	<u>1,039,331</u>	<u>1,129,495</u>	<u>90,164</u>
General revenues			
Cumberland county tax revenue	3,242,446	3,230,794	(11,652)
Interest	10,500	14,321	3,821
Donations	12,500	2,923	(9,577)
Fines	20,000	12,080	(7,920)
Miscellaneous	100	1,058	958
Total general revenues	<u>3,285,546</u>	<u>3,261,176</u>	<u>(24,370)</u>
Total revenues	<u>4,324,877</u>	<u>4,390,671</u>	<u>65,794</u>
Expenditures			
Personnel			
Wages	645,424	639,820	5,604
Benefits			
FICA-employer	49,375	47,782	1,593
Unemployment-employer	3,200	612	2,588
Worker's compensation	1,484	611	873
Health insurance	88,114	79,338	8,776
Life and Disability insurance	4,820	4,756	64
Retirement	61,315	50,895	10,420
Total personnel expenditures	<u>853,732</u>	<u>823,814</u>	<u>29,918</u>
Collection			
Books	5,500	6,887	(1,387)
Periodicals and newspapers	900	784	116
Grants	-	4,589	(4,589)
Collection development grants	-	16,216	(16,216)
Electronic information and internet services	121,411	80,971	40,440
Library supplies	48,000	42,369	5,631
Total collection expenditures	<u>\$ 175,811</u>	<u>\$ 151,816</u>	<u>\$ 23,995</u>

CUMBERLAND COUNTY LIBRARY SYSTEM
Detailed Budgetary Comparison Schedule - General Fund (Continued)
Year Ended December 31, 2014

	Budget	Actual	Variance
Expenditures (Cont'd.)			
Other operating expenditures			
Office			
Office supplies	\$ 3,000	\$ 1,401	\$ 1,599
Postage and delivery	36,900	37,658	(758)
Printing	5,000	1,593	3,407
Photocopier supplies & service	6,000	4,485	1,515
Computer equipment			
Hardware	113,250	161,204	(47,954)
Software	700	29,622	(28,922)
Office hardware and software maintenance	950	739	211
Automation hardware maintenance	17,812	4,613	13,199
Automation software maintenance	80,116	45,165	34,951
Occupancy			
Building maintenance	27,115	20,637	6,478
Utilities	30,720	19,819	10,901
Insurance	1,025	1,070	(45)
Telecommunications			
General office	2,800	2,328	472
Automation system	73,380	69,361	4,019
Public relations	6,716	5,973	743
Programming			
Summer reading	3,000	4,600	(1,600)
Trustee	500	87	413
Staff	6,500	2,066	4,434
Movie licensing USA	2,800	2,747	53
Contracted services			
Database	8,141	6,062	2,079
Consultant	10,500	-	10,500
Audit and Accounting	15,900	15,601	299
Other miscellaneous operating			
Dues and memberships	5,652	5,121	531
OCLC - Bibliographic Services	26,000	25,000	1,000
Cost of raising money and miscellaneous	17,389	14,900	2,489
Staff travel and training			
Travel	4,095	4,240	(145)
Continuing education	12,200	8,185	4,015
Total other operating expenditures	<u>518,161</u>	<u>494,277</u>	<u>23,884</u>
Debt service			
Principal	30,225	28,838	1,387
Interest expense	24,035	22,932	1,103
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, 2014

	Budget	Actual	Variance
Expenditures (Cont'd.)			
Member library distributions			
State public library subsidy			
Amelia S. Givin	\$ 46,671	\$ 46,671	\$ -
Bosler	137,433	137,433	-
Cleve J. Fredrickson	209,734	209,734	-
John Graham	29,416	29,416	-
Joseph T. Simpson	135,772	135,772	-
New Cumberland	66,116	66,116	-
Shippensburg	<u>63,076</u>	<u>63,076</u>	<u>-</u>
Total state public library subsidy	<u>688,218</u>	<u>688,218</u>	<u>-</u>
Cumberland county tax			
Amelia S. Givin	161,269	161,269	-
Bosler	474,900	474,900	-
Cleve J. Fredrickson	724,740	724,740	-
John Graham	101,651	101,651	-
Joseph T. Simpson	469,164	469,164	-
New Cumberland	228,468	228,468	-
Shippensburg	<u>217,957</u>	<u>217,957</u>	<u>-</u>
Total Cumberland county tax	<u>2,378,149</u>	<u>2,378,149</u>	<u>-</u>
Health subsidy distribution			
Amelia S. Givin	1,626	3,315	(1,689)
Bosler	12,967	13,617	(650)
Cleve J. Fredrickson	8,154	6,719	1,435
John Graham	1,626	1,657	(31)
Joseph T. Simpson	4,879	7,596	(2,717)
New Cumberland	4,879	4,972	(93)
Shippensburg	<u>5,682</u>	<u>5,497</u>	<u>185</u>
Total health subsidy distribution	<u>\$ 39,813</u>	<u>\$ 43,373</u>	<u>\$ (3,560)</u>

CUMBERLAND COUNTY LIBRARY SYSTEM
Detailed Budgetary Comparison Schedule - General Fund (Continued)
Year Ended December 31, 2014

	Budget	Actual	Variance
Expenditures (Cont'd.)			
Member library distributions			
Online fines and fees			
Amelia S. Givin	\$ 634	\$ 206	\$ 428
Bosler	3,436	1,442	1,994
Cleve J. Fredrickson	7,668	4,042	3,626
John Graham	206	66	140
Joseph T. Simpson	2,325	1,879	446
New Cumberland	1,907	1,104	803
Shippensburg	<u>1,493</u>	<u>563</u>	<u>930</u>
Total online fines and fees	<u>17,669</u>	<u>9,302</u>	<u>8,367</u>
Total expenditures	<u>\$ 4,725,813</u>	<u>\$ 4,640,719</u>	<u>\$ 85,094</u>