

**LIBRARY SYSTEM OF LANCASTER COUNTY
LANCASTER, PENNSYLVANIA**

**FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION**

DECEMBER 31, 2009

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

LIBRARY SYSTEM OF LANCASTER COUNTY
LANCASTER, PENNSYLVANIA

DECEMBER 31, 2009

C O N T E N T S

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1
STATEMENTS OF FINANCIAL POSITION	2
STATEMENTS OF ACTIVITIES	3
STATEMENTS OF CASH FLOWS	4
NOTES TO THE FINANCIAL STATEMENTS	5
SUPPLEMENTAL INFORMATION:	
DETAILED OPERATING EXPENSES	10
ANALYSIS OF STATE AND COUNTY FUNDING TO MEMBER LIBRARIES	11

SAGER, SWISHER AND COMPANY, LLP

Certified Public Accountants and Consultants

Members

American Institute of
Certified Public Accountants

Pennsylvania Institute of
Certified Public Accountants

Partners

John D. Murr, CPA
Michael L. Reiner, CPA
Lori L. Royer, CPA

619 West Chestnut Street
Lancaster, Pennsylvania 17603

15 North Third Street
Columbia, Pennsylvania 17512

Consultants

Edward M. Sager, CPA
C. Edwin Swisher, III, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Library System of Lancaster County
Lancaster, Pennsylvania

We have audited the accompanying statements of financial position of Library System of Lancaster County as of December 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Library System of Lancaster County's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Library System of Lancaster County as of December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Library System of Lancaster County taken as a whole. The accompanying supplemental information on pages 10 and 11 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Sager, Swisher and Company, LLP

Lancaster, Pennsylvania
June 7, 2010

Lancaster 717-299-4563
Fax 717-299-1364

Columbia 717-684-2077
Fax 717-684-7433

LIBRARY SYSTEM OF LANCASTER COUNTY
 STATEMENTS OF FINANCIAL POSITION
 DECEMBER 31, 2009 AND 2008

	DECEMBER 31, 2009	DECEMBER 31, 2008	INCREASE (DECREASE)
<u>ASSETS</u>			
<u>Current Assets</u>			
Cash and Cash Equivalents	\$2,729,403	\$175,910	\$2,553,493
Accounts Receivable	45,540	83,646	(38,106)
Prepaid Expenses	174,924	210,842	(35,918)
Investments	--	750,000	(750,000)
Total Current Assets	2,949,867	1,220,398	1,729,469
<u>Property and Equipment</u>			
Furniture and Equipment	368,714	350,897	17,817
Vehicles	12,140	12,140	--
Leasehold Improvements	123,485	118,130	5,355
Total Property and Equipment	504,339	481,167	23,172
Less: Accumulated Depreciation	309,066	269,751	39,315
Net Property and Equipment	195,273	211,416	(16,143)
<u>Other Assets</u>			
Security Deposit	8,085	8,085	--
Total Other Assets	8,085	8,085	--
TOTAL ASSETS	\$3,153,225	\$1,439,899	\$1,713,326
 <u>LIABILITIES AND NET ASSETS</u>			
<u>LIABILITIES</u>			
<u>Current Liabilities</u>			
Accounts Payable	\$178,055	\$184,526	(\$6,471)
Accrued Wages	33,349	32,088	1,261
Accrued Expenses	9,096	5,787	3,310
Deferred Revenue	1,760,708	4,665	1,756,043
Due to Staff Association	114	256	(142)
Due to Council of Friends	2,300	2,595	(295)
Total Current Liabilities	1,983,622	229,917	1,753,706
 <u>NET ASSETS</u>			
Unrestricted Net Assets	1,169,603	1,209,982	(40,380)
Temporarily Restricted Net Assets	--	--	--
Permanently Restricted Net Assets	--	--	--
Total Net Assets	1,169,603	1,209,982	(40,380)
TOTAL LIABILITIES AND NET ASSETS	\$3,153,225	\$1,439,899	\$1,713,326

The accompanying notes are an integral part of these financial statements.

LIBRARY SYSTEM OF LANCASTER COUNTY
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2009 AND 2008

	DECEMBER 31, 2009	DECEMBER 31, 2008
<u>CHANGES IN UNRESTRICTED NET ASSETS</u>		
<u>PUBLIC SUPPORT AND REVENUE</u>		
Public Support:		
State Funding:		
Quality Aid	\$848,216	\$856,597
Excellence Aid	967,306	976,865
County Coordination Aid	313,482	316,580
Equal Grant Aid	44,779	45,222
Access PA	132,096	268,223
Total State Funding	2,305,879	2,463,487
County Funding	2,150,000	2,300,000
Total State and County Funding	4,455,879	4,763,487
Less: Disbursements to Member Libraries	2,117,023	2,271,153
State and County Funding Retained by the System	2,338,856	2,492,334
Grants	43,574	157,827
Less: Grants Disbursed to Member Libraries	13,333	8,308
Grants Retained by the System	30,241	149,519
Total Public Support	2,369,097	2,641,853
Other Revenue	40,613	58,240
TOTAL PUBLIC SUPPORT AND REVENUE	2,409,710	2,700,093
 <u>OPERATING EXPENSES</u>		
Salaries & Benefits	1,355,866	1,353,081
Collection Expenses	397,632	483,673
Program & Operating Expenses	656,508	792,859
Depreciation Expense	40,083	44,295
TOTAL OPERATING EXPENSES	2,450,089	2,673,908
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(40,379)	26,185
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	--	--
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	--	--
Increase (Decrease) in Net Assets	(40,379)	26,185
Net Assets – Beginning of Year	1,209,982	1,183,797
Net Assets – End of Year	\$1,169,603	\$1,209,982

The accompanying notes are an integral part of these financial statements.

LIBRARY SYSTEM OF LANCASTER COUNTY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	DECEMBER 31, 2009	DECEMBER 31, 2008
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Changes in Net Assets	\$(40,379)	\$26,185
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	40,083	44,295
(Increase) Decrease In:		
Accounts Receivable	38,106	(64,533)
Prepaid Expenses	35,918	(11,310)
Increase (Decrease) In:		
Accounts Payable	(6,471)	60,829
Accrued Wages	1,260	8,676
Accrued Expenses	3,310	1,963
Due to Council of Friends	(295)	1,306
Due to Staff Association	(142)	(136)
Deferred Revenue	14,124	(23,986)
	85,514	43,289
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of Equipment	(23,940)	(63,906)
Deferred Revenue – 2010 State Aid	1,741,919	--
Maturity of CD's	750,000	--
Payment of Security Deposit	--	(616)
	2,467,979	(64,522)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
	--	--
NET INCREASE (DECREASE) IN CASH	2,553,493	(21,233)
Cash and Cash Equivalents – Beginning of Year	175,910	197,143
Cash and Cash Equivalents – End of Year	\$2,729,403	\$175,910
<u>SUPPLEMENTAL CASH FLOW DISCLOSURES</u>		
Cash Paid During the Year for:		
Interest	\$ --	\$ --
Income Taxes	\$ --	\$ --

The accompanying notes are an integral part of these financial statements.

LIBRARY SYSTEM OF LANCASTER COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 1 – SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Library System of Lancaster County (“the Organization”) was incorporated in Pennsylvania on April 23, 1987. The Library System was established to directly receive and distribute funds and to provide services to all local public libraries in Lancaster County. In addition, the Library System is responsible for planning and overseeing long-range programs and development of public library services in Lancaster County.

Following is a summary of the significant accounting policies of the Organization:

Basis of Accounting

The Organization follows the accrual basis of accounting. Revenue and gains are recognized in the period in which earned. Expenses and losses are recognized when incurred.

Fixed Assets and Depreciation

Fixed assets with a useful life of over one year and a composite cost of over \$2,500 are carried at cost, less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets.

Accounts Receivable

Accounts are written off when in the opinion of management they are uncollectible (direct write-off method). This method does not differ significantly from a generally accepted method. There was no bad debt expense for the years ended December 31, 2009 and 2008.

Federal Income Taxes

The Organization is recognized as a tax-exempt organization under Internal Revenue Code 501(c)(3) and, therefore, is generally not subject to federal income taxes.

Cash and Cash Equivalents

The Organization considers all investments with an initial maturity of three months or less to be cash and cash equivalents.

Investments

The investments held by the Organization are Certificates of Deposit with a maturity date of less than one year. Unrealized gains and losses are included in the statement of activity and changes in net assets.

Contributions

Gifts of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If the temporarily restricted net asset becomes unrestricted within the same period as the contribution, then the contributions are reported in the financial statements as unrestricted support.

LIBRARY SYSTEM OF LANCASTER COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 1 – SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions (continued)

Gifts of land, buildings, and equipment are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service (as the assets are used in the Organization's activities).

Grants and Contracts

The Organization accounts for grant and contract revenue, which are exchange transactions, in the statement of activities to the extent that expenses have been incurred for the purpose specified by the grantor during the period. In applying this concept, the legal requirements of each individual program are used as guidance. All funds not expended in accordance with the grant or contract are recorded as a liability to the grantor as the Organization does not maintain any equity in the grant or contract. Additionally, funds received in advance of their proper usage are accounted for as deferred revenue in the statement of financial position.

Financial Statement Presentation

Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications

Certain items in the prior year have been reclassified to conform to current year classifications.

Management's Review

Management has evaluated subsequent events through June 7, 2010, the date the financial statements were available to be issued.

LIBRARY SYSTEM OF LANCASTER COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2009

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents are composed of the following:

	DECEMBER 31, 2009	DECEMBER 31, 2008
Fulton Bank Money Market	\$2,311,106	\$132,731
Province Bank Money Market	252,271	--
Fulton Bank General Account	163,612	10,781
Council of Friends General Account	2,300	2,595
Staff Association General Account	114	256
Union National Community Bank Money Market	--	10,004
Fulton Bank Grant Account	--	19,543
	\$2,729,403	\$175,910
Total Cash and Cash Equivalents		

The Fulton Bank Grant Account is a non interest bearing account. It is used to deposit LSTA grant funds obtained by the Organization in accordance with requirements of office of Commonwealth Libraries.

NOTE 3 – CONCENTRATIONS

The Organization has checking and savings accounts at local banks. Bank deposits totaled \$2,753,543 as of December 31, 2009 of which \$500,000 is federally insured by the FDIC. Other amounts included in cash are not federally insured by the FDIC. With the exception of \$2,271 at Province Bank all amounts in excess of FDIC limitations are collateralized by a pool of marketable securities. This pool meets the requirement of Act 72, 1971 Session of the Pennsylvania General Assembly concerning deposits of public funds. Bank deposits totaled \$267,813 as of December 31, 2008, of which \$260,004 is federally insured by the FDIC. Other amounts included in cash are not federally insured by the FDIC. Amounts in excess of FDIC limitations are collateralized by a pool of marketable securities. This pool meets the requirement of Act 72, 1971 Session of the Pennsylvania General Assembly concerning deposits of public funds

The revenues from the County of Lancaster totaled \$2,150,000 or 47% of total revenue and \$2,300,000 or 46% of total revenue for the years ended December 31, 2009 and 2008, respectively. The revenues from the Commonwealth of Pennsylvania totaled \$2,305,879 or 51% of total revenue and \$2,463,487 or 49% of total revenue for the years ended December 31, 2009 and 2008, respectively.

NOTE 4 - ADVERTISING

The Organization follows the policy of charging the cost of advertising to expense as incurred. Amounts charged to expense for advertising for the years ended December 31, 2009 and 2008 totaled \$8,501 and \$25,186.

NOTE 5 – NET ASSETS

Unrestricted net assets consist of the following:

	DECEMBER 31, 2009	DECEMBER 31, 2008
Designated by the Board of Trustees	\$781,900	\$781,900
Undesignated	387,703	428,082
	\$1,169,603	\$1,209,982
Total unrestricted net assets		

LIBRARY SYSTEMS OF LANCASTER COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2009

NOTE 6 – LONG-TERM LEASE

The Organization entered into a 10-year property lease from October 1, 2003 through September 30, 2013. The property lease is for facilities from which the Organization conducts its central operations. Rent payments are fixed at \$7,468.50 base per month for the first year. In the second through the tenth year the minimum fixed annual rent will increase per schedule in lease agreement. Additional rents for Common Area Maintenance and HVAC Maintenance are assessed at the beginning of the calendar year based on budgeted amounts and reconciled annually with actual expenditures by the landlord. For the calendar year 2009 and 2008, fixed rent payments totaled \$135,519 and \$132,844, respectively.

Future minimum annual property lease payments (excluding CAM and HVAC) are as follows:

December 31, 2010	\$107,816
December 31, 2011	111,050
December 31, 2012	114,352
Thereafter	<u>87,736</u>
Total	<u><u>\$420,954</u></u>

NOTE 7 – OPERATING LEASE

The Organization entered into a lease with Leaf Financial Corporation for a folder/insert machine in September 2007. The lease is for thirty-six months ending September 30, 2010 with a monthly payment of \$212. The lease is classified as an operating lease. The Organization entered into a lease with Engle Business Machines for a digital copier. The lease is for thirty-six months ending December 31, 2009. The Organization entered into a lease with Great American Leasing Corporation for a digital telephone system. The lease is for 36 months ending December 21, 2011 with a monthly payment of \$308.34. This lease is classified as an operating lease. Total lease payments for calendar year 2009 and 2008 were \$11,319 and \$7,963, respectively

Future minimum annual operating lease payments are as follows:

December 31, 2010	\$5,396
December 31, 2011	<u>3,700</u>
Total	<u><u>\$9,096</u></u>

NOTE 8 – RETIREMENT

The Organization offers a salary reduction tax deferred annuity under Internal Revenue Code section 403(b). All employees are required, as a condition of employment, to participate after completion of a 90-day introductory period. Under this plan, pre-tax contributions are made for the calendar years 2009 and 2008 of 5% of the employee's gross wages or the maximum allowable under current IRS regulations, whichever is less. Additionally, the Organization contributes 5% of the employees' gross wages up to the maximum allowed by law. Contributions made for the years ended December 31, 2009 and 2008 were \$52,037 and \$50,708, respectively.

NOTE 9 – BOOKMOBILE

The Bookmobile is used in the daily operations of the Organization. The Bookmobile was purchased by the County of Lancaster and, as such, is not recorded on the Statement of Financial Position. The Organization insures the contents of the Bookmobile. The County Commissioners approve the Organization's Board of Trustees.

LIBRARY SYSTEM OF LANCASTER COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2009

NOTE 10 – FUNCTIONAL ALLOCATION OF EXPENSES

Functional expenses are charged directly to program, management and general, or fundraising in general categories based on specific identification. The allocation of total expenses is as follows:

	DECEMBER 31,2009	DECEMBER 31,2008
Program Expenses	\$2,064,689	\$2,252,413
Management & General Expenses	381,201	416,252
Fundraising Expenses	4,199	5,243
Total	\$2,450,089	\$2,673,908

NOTE 11 – CONTINGENCIES

The Organization participates in various federal, state and locally funded grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Accordingly, the Organization is potentially liable for any expenditure that may be disallowed pursuant to the terms of these grant programs. The Organization's management is not aware of any material items of noncompliance that would result in the disallowance of program expenses.

NOTE 12 – DEFERRED REVENUE

Deferred revenue consists of the following:

	DECEMBER 31,2009	DECEMBER 31,2008
2010 PA State aid to Member Libraries	\$1,741,919	\$ --
Gates Grant	--	1,145
DCED BookFlix	13,416	--
Family Museum Pass	528	1,530
Sterling Financial	--	1,000
Tumble Books	4,500	--
Family Voices	345	990
Total Deferred Revenue	\$1,760,708	\$4,665

NOTE 13 – COMPENSATED ABSENCES

The Organization maintains a leave time policy in which employees can accrue earned leave time. Employees may carry over a maximum of half their annual eligibility of unused vacation time to the next year. The maximum amount that could be carried over by any employee is 12.5 days. Employees will be compensated for their balance of accrued vacation time upon voluntary termination or retirement. Employees may also carry over earned sick leave and are eligible, upon retirement, to receive payment of half their sick leave balance, up to 20 days.

It is the Organization's policy not to record an accrued liability for compensated absences. The Organization historically has not experienced substantial material payment of accrued leave time upon termination of employees, and the liability can not be reasonably estimated. Accrued leave time is charged to an expense when paid. This method does not differ significantly from a generally accepted method.

**SUPPLEMENTAL INFORMATION
OF
LIBRARY SYSTEM OF LANCASTER COUNTY
DECEMBER 31, 2009**

LIBRARY SYSTEM OF LANCASTER COUNTY
 DETAILED OPERATING EXPENSES
 YEARS ENDED DECEMBER 31, 2009 and 2008

	<u>DECEMBER</u> <u>31, 2009</u>	<u>DECEMBER</u> <u>31, 2008</u>
<u>OPERATING EXPENSES</u>		
Salaries and Benefits:		
Salaries and Wages	\$1,064,107	\$1,060,894
Fringe Benefits	21,790	21,898
Health Insurance	126,054	125,520
Payroll Taxes	91,878	94,061
Retirement	<u>52,037</u>	<u>50,708</u>
Total Salaries and Benefits	<u>1,355,866</u>	<u>1,353,081</u>
Collection Expenses:		
Cataloging & Processing	85,116	106,178
Collections – Books & Audio Video	27,773	67,195
Computer Service Fees	21,485	21,197
Electronic Databases	245,297	276,642
Subscriptions	<u>17,961</u>	<u>12,461</u>
Total Collection Expenses	<u>397,632</u>	<u>483,673</u>
Program & Operating Expenses:		
Board & Public Relations Expenses	11,182	32,257
Bookmobile	9,389	10,654
Building Maintenance	11,514	13,779
Contracted Services – Other	775	23,553
Dues and Memberships	4,112	3,719
Employment Related Expenses	759	1,783
Equipment Leases & Maintenance	24,424	21,096
Furniture and Equipment	60,871	132,295
Insurance	7,690	6,342
Legal and Professional	12,797	11,433
Library Programs	58,689	63,754
Member Library Network Support & Maintenance	110,026	109,976
Miscellaneous	511	240
Office & Computer Supplies	15,465	19,103
Postage & Shipping	15,611	16,442
Printing	15,515	15,910
Rent	135,519	132,844
Telephone, Fax & Data Network	133,232	128,829
Travel, Conferences and Continuing Education	11,936	28,878
Utilities	15,412	18,307
Vehicle Expense	<u>1,080</u>	<u>1,665</u>
Total Program & Operating Expenses	<u>656,508</u>	<u>792,859</u>
Depreciation Expense:	<u>40,083</u>	<u>44,295</u>
Total Operating Expenses	<u><u>\$2,450,089</u></u>	<u><u>\$2,673,908</u></u>

The accompanying notes are an integral part of these financial statements.

LIBRARY SYSTEM OF LANCASTER COUNTY
ANALYSIS OF STATE AND COUNTY FUNDING TO MEMBER LIBRARIES
FOR THE YEAR ENDED DECEMBER 31, 2009

	State		Total State	County Aid	Grand Total
	Access PA	State Aid			
Funding:	<u>\$132,096</u>	<u>\$2,173,783</u>	<u>\$2,305,879</u>	<u>\$2,150,000</u>	<u>\$4,455,879</u>
Disbursements:					
Adamstown Area Library	6,027	98,647	104,674	6,864	111,538
Columbia Public Library	1,682	47,583	49,265	3,893	53,158
ELANCO Library	4,087	92,120	96,207	5,779	101,986
Elizabethtown Library	7,860	156,288	164,148	14,756	178,904
Ephrata Library	26,439	277,917	304,356	17,144	321,500
Lancaster Public Library	18,963	521,097	540,060	43,977	584,037
Lititz Public Library	27,639	208,547	236,186	14,025	250,211
Manheim Community Library	1,939	55,531	57,470	4,584	62,054
Manheim Township Library	4,511	--	4,511	6,861	11,372
Milanof-Schock Library	8,910	107,460	116,370	8,665	125,035
Moores Memorial Library	2,910	43,673	46,583	3,787	50,370
Pequea Valley Public Library	5,651	61,402	67,053	6,781	73,834
Quarryville Library	4,803	101,231	106,034	6,404	112,438
Strasburg Heisler Library	10,674	65,116	75,790	4,795	80,585
Total Disbursements	<u>132,096</u>	<u>1,836,612</u>	<u>1,968,708</u>	<u>148,315</u>	<u>2,117,023</u>
Funding Retained by System	<u>\$ --</u>	<u>\$337,171</u>	<u>\$337,171</u>	<u>\$2,001,685</u>	<u>\$2,338,856</u>

The accompanying notes are an integral part of these financial statements.