

**SOUTHERN TIER LIBRARY SYSTEM**

**PAINTED POST, NEW YORK**

**AUDITED FINANCIAL STATEMENTS**

**OTHER FINANCIAL INFORMATION**

**AND**

**INDEPENDENT AUDITOR'S REPORTS**

**DECEMBER 31, 2013 AND 2012**



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Southern Tier Library System

We have audited the accompanying financial statements of Southern Tier Library System, which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

**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 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 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 qualified audit opinion.

**Basis for Qualified Opinion**

Southern Tier Library System has not accrued a liability for postretirement benefits relating to future healthcare costs which, in our opinion, should be recorded in accordance with accounting principles generally accepted in the United States of America (GAAP). Southern Tier Library System has not determined the impact of this departure from GAAP on the balance sheets as of December 31, 2013 and 2012, or on the statements of activities for the years ended December 31, 2013 and 2012. We believe GAAP requires a liability to be recorded based on an actuarial calculation and we believe this liability, if calculated, would be material to the financial statements. See also Note F.

**Qualified Opinion**

In our opinion, except for the effects on the financial statements of not accruing a liability for postretirement benefits related to future healthcare costs as described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Southern Tier Library System as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

In our report dated May 17, 2013, we expressed an unmodified opinion on the 2012 financial statements of Southern Tier Library System. We have determined the 2012 financial statements had a departure from GAAP and our present opinion on the 2012 financial statements, as presented herein, is different from that expressed in our previous report.

*Mengel, Metzger, Barw & Co. LLP*

Elmira, New York  
May 13, 2014

SOUTHERN TIER LIBRARY SYSTEM

BALANCE SHEETS

<u>ASSETS</u>	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 1,129,703	\$ 1,056,985
Accounts receivable	9,471	11,763
Grants receivable	-	47,213
Prepaid expenses	47,364	53,725
TOTAL CURRENT ASSETS	<u>1,186,538</u>	<u>1,169,686</u>
 <u>PROPERTY AND EQUIPMENT</u>		
Building	952,454	952,454
Furniture, fixtures and equipment	607,257	607,257
Vehicles	90,504	105,105
	<u>1,650,215</u>	<u>1,664,816</u>
Less allowances for depreciation	988,506	920,712
	<u>661,709</u>	<u>744,104</u>
 <u>OTHER ASSET - Collections</u>	 -	 -
	<u>\$ 1,848,247</u>	<u>\$ 1,913,790</u>
 <u>LIABILITIES AND NET ASSETS</u>		
 <u>CURRENT LIABILITIES</u>		
Current portion of mortgage payable	\$ 44,940	\$ 44,454
Accounts payable	16,406	10,009
Grants payable	10,218	9,626
Accrued payroll and related withholdings	7,720	4,805
Accrued benefit time	62,276	94,306
Grant advances	15,598	-
TOTAL CURRENT LIABILITIES	<u>157,158</u>	<u>163,200</u>
 <u>MORTGAGE PAYABLE</u>	 332,620	 377,502
 <u>NET ASSETS</u>		
Unrestricted:		
Operating	1,235,736	1,239,379
Board designated	89,000	93,000
	<u>1,324,736</u>	<u>1,332,379</u>
Temporarily restricted	33,733	40,709
	<u>1,358,469</u>	<u>1,373,088</u>
	<u>\$ 1,848,247</u>	<u>\$ 1,913,790</u>

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

SOUTHERN TIER LIBRARY SYSTEM

STATEMENTS OF ACTIVITIES

	Year ended December 31,			Year ended December 31,		
	2013			2012		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Support and revenue:						
General library aid	\$ 821,005	\$ -	\$ 821,005	\$ 782,618	\$ -	\$ 782,618
Local services aid	84,583	-	84,583	80,628	-	80,628
Outreach aid	94,358	-	94,358	89,919	-	89,919
Automation aid	64,167	-	64,167	61,166	-	61,166
LSTA grants	11,138	-	11,138	18,969	-	18,969
Other grants	-	25,708	25,708	127,651	20,067	147,718
Member library pass through	568,119	-	568,119	456,312	-	456,312
Member library automation fee	302,293	-	302,293	254,843	-	254,843
Telephone e-rate discount	60,129	-	60,129	44,533	-	44,533
Processing fees	21,050	-	21,050	20,914	-	20,914
Other income	29,022	-	29,022	26,688	-	26,688
Interest	1,817	-	1,817	2,563	-	2,563
Net assets released from restrictions	32,684	(32,684)	-	36,348	(36,348)	-
TOTAL SUPPORT AND REVENUE	2,090,365	(6,976)	2,083,389	2,003,152	(16,281)	1,986,871
Expenses:						
Program expenses	1,666,385	-	1,666,385	1,624,803	-	1,624,803
Management and general	431,623	-	431,623	319,433	-	319,433
TOTAL EXPENSES	2,098,008	-	2,098,008	1,944,236	-	1,944,236
CHANGE IN NET ASSETS	(7,643)	(6,976)	(14,619)	58,916	(16,281)	42,635
Net assets at beginning of year	1,332,379	40,709	1,373,088	1,273,463	56,990	1,330,453
NET ASSETS AT END OF YEAR	\$ 1,324,736	\$ 33,733	\$ 1,358,469	\$ 1,332,379	\$ 40,709	\$ 1,373,088

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

SOUTHERN TIER LIBRARY SYSTEM

STATEMENTS OF CASH FLOWS

	<u>Year ended December 31,</u>	
	<u>2013</u>	<u>2012</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ (14,619)	\$ 42,635
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation	82,395	93,498
Changes in certain assets and liabilities affecting operations:		
Accounts receivable	2,292	6,126
Grants receivable	47,213	3,956
Prepaid expenses	6,361	(11,479)
Accounts payable	6,397	(10,289)
Grants payable	592	229
Accrued payroll and related withholdings	2,915	1,428
Accrued benefit time	(32,030)	2,285
Grant advances	<u>15,598</u>	<u>(11,843)</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	117,114	116,546
 <u>CASH FLOWS - FINANCING ACTIVITY</u>		
Payments on mortgage payable	<u>(44,396)</u>	<u>(43,170)</u>
NET CASH USED FOR FINANCING ACTIVITY	<u>(44,396)</u>	<u>(43,170)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	72,718	73,376
Cash and cash equivalents at beginning of year	<u>1,056,985</u>	<u>983,609</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,129,703</u>	<u>\$ 1,056,985</u>
 <u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid during the year for interest	<u>\$ 4,434</u>	<u>\$ 6,521</u>

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

SOUTHERN TIER LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Library System and revenue recognition

The Southern Tier Library System (the "System") provides grants and services to member libraries and reading centers in Allegany, Schuyler, Steuben, Chemung and Yates counties in New York State. The System is funded primarily through New York State grants and records revenue as services are rendered.

Other grants are recorded as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When the donor restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Grants that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the fiscal year in which the grants are recognized.

Cash and cash equivalents

The System maintains its cash and cash equivalents in one financial institution, which are insured by the Federal Deposit Insurance Corporation up to \$250,000. Uninsured balances, which are fully collateralized by securities, aggregate approximately \$904,000 at December 31, 2013. The System has not experienced any losses in such accounts and believes it is not exposed to any significant risk in cash and cash equivalents.

Accounts and grants receivable

Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances. Management reviews these amounts periodically to determine if any receivables will potentially be uncollectible. After all attempts to collect a receivable have failed, the receivable is written off.

Property and equipment

Property and equipment are stated on the basis of cost if purchased or, if donated, at approximate fair value at the date of donation. Depreciation is computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives, which range from three to thirty years.

Expenditures for renewals and betterments are capitalized while expenditures for repairs and maintenance are charged to operations as incurred. Upon sale or retirement, the related cost and allowances for depreciation are removed from the accounts and the related gain or loss is reflected in activities.

Grants payable and grant advance

Grants payable represent the portion of grants receivable that are required to be passed through to member libraries. Grant advance represents conditional amounts received from a funding source. The System recognizes revenue when the conditions are substantially met.

Collections

Books, periodicals and other library materials are not capitalized. Purchases of these items are recorded as decreases in unrestricted net assets in the year in which the items are acquired. Contributions of these items are not reflected in the financial statements.



SOUTHERN TIER LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2013 AND 2012

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Tax exempt status

The System is a non-profit organization exempt from federal and state income taxation under Section 501(c)(3) of the Internal Revenue Code.

The System has filed for and received income tax exemptions in the various jurisdictions where it is required to do so. The System files a Form 990 tax return in the U.S. federal jurisdiction and is not required to file in New York State. With few exceptions, as of December 31, 2013, the System would not be subject to U.S. federal income tax examinations by tax authorities for years ended prior to December 31, 2010. The tax returns for the years ended December 31, 2010 through December 31, 2013 are still subject to potential audit by the IRS. Management of the System believes it has no material uncertain tax positions and, accordingly has not recognized any liability for unrecognized tax benefits.

Use of estimates in the preparation of financial statements

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support, revenue and expenses during the reporting period. Actual results could differ from those estimates.

Financial statement presentation

The System reports 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. At December 31, 2013 and 2012, the System had no permanently restricted net assets.

Subsequent events

The System has conducted an evaluation of potential subsequent events occurring after the balance sheet date through May 13, 2014, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

SOUTHERN TIER LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2013 AND 2012

NOTE B: MORTGAGE PAYABLE

The mortgage payable represents amounts due on an Industrial Development Agency Revenue Bond due in monthly installments of \$4,069 through February 2022 including interest at a variable rate (1.09% at December 31, 2013). Interest adjusts every five years. This bond is collateralized by a mortgage and substantially all assets.

Anticipated maturities of the mortgage payable are as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2014	\$ 44,940
2015	45,433
2016	45,922
2017	46,433
2018	46,942
Thereafter	<u>147,890</u>
	<u>\$ 377,560</u>

NOTE C: USE OF LAND

The System's building is situated on land that is leased for thirty years through May 2031 from Steuben-Allegany Board of Cooperative Education Services (BOCES) for a total sum of one dollar. The lease agreement includes renewal options and purchase options for the lessor to sell land to the lessee for one dollar and the lessee to sell the building to the lessor for one dollar. Due to the nature of the leasing arrangement, the System has not determined a fair market value of the use of the land, and accordingly has not recorded the related contribution revenue or lease expense.

NOTE D: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of unexpended amounts relating to various grants which limit the use of the grant proceeds.

SOUTHERN TIER LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2013 AND 2012

NOTE E: RETIREMENT BENEFITS

Substantially all employees of the System are eligible to participate in the New York State Employees' Retirement System on a contributory basis. As a government pension plan, the New York State Employees' Retirement System is exempt from provisions of the Employee Retirement Income Security Act of 1974. Information relating to the differences, if any, between the actuarially computed value of vested benefits and the Plan's assets, is not available.

The System makes pension payments to the New York State Employees' Retirement System based on the salaries of participating employees multiplied by the most recent rates available from the New York State Employees' Retirement System. The pension contribution for the years ended December 31, 2013 and 2012 amounted to \$136,298 and \$127,781 respectively.

NOTE F: OTHER POSTRETIREMENT BENEFIT

The System pays a portion of health insurance premiums for certain retirees in accordance with a contract with the staff organization. The current contract expires in 2015. The System is currently paying a total of approximately \$5,000 per month for existing retirees. The System has not recorded a liability for the postretirement benefits and has not determined the impact on this departure from GAAP on the balance sheets as of December 31, 2013 and 2012, or on the statements of activities for the years then ended.

**SOUTHERN TIER LIBRARY SYSTEM**

**OTHER FINANCIAL INFORMATION**

INDEPENDENT AUDITOR'S REPORT ON OTHER FINANCIAL INFORMATION

Board of Trustees  
Southern Tier Library System

We have audited the financial statements of Southern Tier Library System as of and for the years ended December 31, 2013 and 2012, and have issued our report thereon dated May 13, 2014, which contained a qualified opinion on those financial statements, as a result of a liability for postretirement benefits related to future healthcare costs not being recognized in accordance with accounting principles generally accepted in the United States of America. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The financial information hereinafter is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects on the accompanying information of the qualified opinion on the financial statements as described above, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Mengel, Metzger, Barr & Co. LLP*

Elmira, New York  
May 13, 2014

SOUTHERN TIER LIBRARY SYSTEM

SCHEDULES OF EXPENSES

	<u>Year ended December 31,</u>	
	<u>2013</u>	<u>2012</u>
Salaries and wages	\$ 727,558	\$ 682,860
Payroll taxes	62,132	57,148
Employee benefits	268,472	275,481
Library materials and supplies	48,727	52,772
Small equipment	27,363	12,413
Repairs and maintenance	81,967	77,802
Utilities	15,283	10,677
Insurance	10,847	11,318
Vehicle expenses	40,598	35,655
Telephone	81,711	70,427
Postage	5,836	4,916
Publicity	563	1,572
Travel and training	23,180	40,397
Professional fees	46,931	48,560
Membership dues	2,036	3,214
Interest expense	4,434	6,521
Depreciation expense	82,395	93,498
Member library pass through	567,975	459,005
	<u>\$ 2,098,008</u>	<u>\$ 1,944,236</u>

SOUTHERN TIER LIBRARY SYSTEM

SCHEDULES OF DEPARTMENT REVENUE AND EXPENSE

	Year ended December 31,			Year ended December 31,		
	2013			2012		
	Revenue	Expense	Net	Revenue	Expense	Net
Administration	\$ 934,409	\$ 431,623	\$ 502,786	\$ 886,473	\$ 319,433	\$ 567,040
Delivery	-	98,191	(98,191)	-	95,077	(95,077)
Information technology	428,607	415,846	12,761	366,566	355,118	11,448
Interloan	-	53,297	(53,297)	-	52,433	(52,433)
Member services	-	113,003	(113,003)	-	90,977	(90,977)
Outreach	94,358	97,192	(2,834)	89,919	99,494	(9,575)
Technical services	21,050	143,008	(121,958)	20,914	161,602	(140,688)
Youth services	-	44,645	(44,645)	-	41,984	(41,984)
LSTA grants	11,138	11,480	(342)	18,969	17,498	1,471
Other grants	25,708	39,353	(13,645)	147,718	158,117	(10,399)
Depreciation	-	82,395	(82,395)	-	93,498	(93,498)
Member library pass through	568,119	567,975	144	456,312	459,005	(2,693)
	<u>\$ 2,083,389</u>	<u>\$ 2,098,008</u>	<u>\$ (14,619)</u>	<u>\$ 1,986,871</u>	<u>\$ 1,944,236</u>	<u>\$ 42,635</u>