

SOUTHERN TIER LIBRARY SYSTEM

PAINTED POST, NEW YORK

AUDITED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

AND

INDEPENDENT AUDITOR'S REPORTS

DECEMBER 31, 2017 AND 2016



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, 2017 and 2016, 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 recognized a net pension liability nor accrued a liability for postretirement benefits relating to future healthcare costs which, in our opinion, should be recorded to conform 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, 2017 and 2016, or on the statements of activities for the years ended December 31, 2017 and 2016. We believe GAAP requires these liabilities to be recorded based on an actuarial calculation and we believe this liability, if calculated, would be material to the financial statements. See also Notes D and E.

Qualified Opinion

In our opinion, except for the effects on the financial statements of not accruing a net pension liability nor 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, 2017 and 2016, 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.

Mengel, Metzger, Barw & Co. LLP

Elmira, New York
June 4, 2018

SOUTHERN TIER LIBRARY SYSTEM

BALANCE SHEETS

| <u>ASSETS</u> | <u>December 31,</u> | |
|--|---------------------|---------------------|
| | <u>2017</u> | <u>2016</u> |
| <u>CURRENT ASSETS</u> | | |
| Cash and cash equivalents | \$ 1,305,868 | \$ 1,060,992 |
| Accounts receivable | 89,496 | 144,420 |
| Prepaid expenses | 83,348 | 72,292 |
| TOTAL CURRENT ASSETS | <u>1,478,712</u> | <u>1,277,704</u> |
| <u>PROPERTY AND EQUIPMENT</u> | | |
| Building | 992,538 | 992,538 |
| Furniture, fixtures and equipment | 845,555 | 840,335 |
| Vehicles | 119,362 | 114,687 |
| | <u>1,957,455</u> | <u>1,947,560</u> |
| Less allowances for depreciation | <u>1,048,315</u> | <u>1,126,388</u> |
| | 909,140 | 821,172 |
| <u>OTHER ASSET</u> - Collections | - | - |
| | <u>\$ 2,387,852</u> | <u>\$ 2,098,876</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| <u>CURRENT LIABILITIES</u> | | |
| Accounts payable | \$ 42,804 | \$ 36,673 |
| Accrued payroll and related withholdings | 21,761 | 20,330 |
| Accrued benefit time | 87,045 | 90,138 |
| Grant advance | 3,598 | 3,598 |
| TOTAL CURRENT LIABILITIES | <u>155,208</u> | <u>150,739</u> |
| <u>NET ASSETS</u> | | |
| Unrestricted: | | |
| Operating | 1,988,248 | 1,811,897 |
| Board designated | 100,000 | 100,000 |
| | <u>2,088,248</u> | <u>1,911,897</u> |
| Temporarily restricted | 144,396 | 36,240 |
| | <u>2,232,644</u> | <u>1,948,137</u> |
| | <u>\$ 2,387,852</u> | <u>\$ 2,098,876</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, | | |
|---------------------------------------|-------------------------|---------------------------|---------------------|-------------------------|---------------------------|---------------------|
| | 2017 | | | 2016 | | |
| | Unrestricted | Temporarily restricted | Total | Unrestricted | Temporarily restricted | Total |
| Support and revenue: | | | | | | |
| General library aid | \$ 987,952 | \$ - | \$ 987,952 | \$ 987,420 | \$ - | \$ 987,420 |
| Local services aid | 94,404 | - | 94,404 | 94,354 | - | 94,354 |
| Outreach aid | 105,494 | - | 105,494 | 105,447 | - | 105,447 |
| Other grants | - | 260,720 | 260,720 | - | 77,653 | 77,653 |
| Member library pass through | 647,936 | - | 647,936 | 721,007 | - | 721,007 |
| Member library automation fee | 405,885 | - | 405,885 | 428,666 | - | 428,666 |
| Telephone e-rate discount | 273,081 | - | 273,081 | 199,696 | - | 199,696 |
| Processing fees | 17,990 | - | 17,990 | 17,900 | - | 17,900 |
| Other income | 49,856 | - | 49,856 | 49,494 | - | 49,494 |
| Interest | 1,175 | - | 1,175 | 1,218 | - | 1,218 |
| Net assets released from restrictions | 152,564 | (152,564) | - | 74,519 | (74,519) | - |
| TOTAL SUPPORT AND REVENUE | <u>2,736,337</u> | <u>108,156</u> | <u>2,844,493</u> | <u>2,679,721</u> | <u>3,134</u> | <u>2,682,855</u> |
| Expenses: | | | | | | |
| Program expenses | 2,033,029 | - | 2,033,029 | 1,992,191 | - | 1,992,191 |
| Management and general | 526,957 | - | 526,957 | 469,392 | - | 469,392 |
| TOTAL EXPENSES | <u>2,559,986</u> | <u>-</u> | <u>2,559,986</u> | <u>2,461,583</u> | <u>-</u> | <u>2,461,583</u> |
| CHANGE IN NET ASSETS | 176,351 | 108,156 | 284,507 | 218,138 | 3,134 | 221,272 |
| Net assets at beginning of year | <u>1,911,897</u> | <u>36,240</u> | <u>1,948,137</u> | <u>1,693,759</u> | <u>33,106</u> | <u>1,726,865</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 2,088,248</u> | <u>\$ 144,396</u> | <u>\$ 2,232,644</u> | <u>\$ 1,911,897</u> | <u>\$ 36,240</u> | <u>\$ 1,948,137</u> |

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>2017</u> | <u>2016</u> |
| <u>CASH FLOWS - OPERATING ACTIVITIES</u> | | |
| Change in net assets | \$ 284,507 | \$ 221,272 |
| Adjustments to reconcile change in net assets to net cash provided from operating activities: | | |
| Depreciation | 116,014 | 73,170 |
| Changes in certain assets and liabilities affecting operations: | | |
| Accounts receivable | 54,924 | (96,049) |
| Prepaid expenses | (11,056) | (527) |
| Accounts payable | 6,131 | (11,943) |
| Accrued payroll and related withholdings | 1,431 | 5,208 |
| Accrued benefit time | <u>(3,093)</u> | <u>15,055</u> |
| NET CASH PROVIDED FROM OPERATING ACTIVITIES | 448,858 | 206,186 |
| <u>CASH FLOWS - INVESTING ACTIVITY</u> | | |
| Purchase of property and equipment, net of disposals | <u>(203,982)</u> | <u>(251,896)</u> |
| NET CASH USED FOR INVESTING ACTIVITY | <u>(203,982)</u> | <u>(251,896)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 244,876 | (45,710) |
| Cash and cash equivalents at beginning of year | <u>1,060,992</u> | <u>1,106,702</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 1,305,868</u> | <u>\$ 1,060,992</u> |

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

SOUTHERN TIER LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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.

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 \$1,062,000 at December 31, 2017. 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 receivable

Accounts 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.

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.

Grant advance

Grant advance represents conditional amounts received from a funding source. The System recognizes revenue when the conditions are substantially met.

SOUTHERN TIER LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2017 AND 2016

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, 2017, the System would not be subject to U.S. federal income tax examinations by tax authorities for years ended prior to December 31, 2014. The tax returns for the years ended December 31, 2014 through December 31, 2017 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, 2017 and 2016, 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 June 4, 2018, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

NOTE B: 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 C: 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, 2017 AND 2016

NOTE D: RETIREMENT BENEFITS

Substantially all employees of the System are eligible to participate in the New York State Employees' Retirement System on a contributory basis. The System has not recorded a liability relating to the difference between the actuarially computed value of vested benefits and the Plan's assets as the information is not available for entities that do not present financial statements under Governmental Accounting Standards.

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, 2017 and 2016 amounted to \$90,031 and \$85,981 respectively.

NOTE E: 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 2018. Effective July 2015, no new employees are eligible for this benefit. The System is currently paying a total of \$4,574 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, 2017 and 2016, or on the statements of activities for the years then ended.

NOTE F: COMMITMENTS

The System has lease agreements for access to dark fiber internet connections for the System and certain member libraries with total current monthly lease payments of \$7,325 through June 2022. Lease expense for the years ended December 31, 2017 and 2016 amounted to \$67,913 and \$28,919, respectively. The future minimum lease payments as of December 31, 2017 on these lease agreements are summarized as follows:

| <u>Year ending December 31,</u> | <u>Amount</u> |
|---------------------------------|-------------------|
| 2018 | \$ 87,900 |
| 2019 | 87,900 |
| 2020 | 87,900 |
| 2021 | 58,981 |
| 2022 | <u>19,988</u> |
| | <u>\$ 342,669</u> |

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, 2017 and 2016, and have issued our report thereon dated June 4, 2018, which contained a qualified opinion on those financial statements, as a result of a liability for net pension liability and postretirement benefits related to future healthcare costs not being recognized in accordance with accounting principles generally accepted in the United States of America. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole.

The schedules of expenses 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
June 4, 2018

SOUTHERN TIER LIBRARY SYSTEM

SCHEDULES OF EXPENSES

| | <u>Year ended December 31,</u> | |
|--------------------------------|--------------------------------|---------------------|
| | <u>2017</u> | <u>2016</u> |
| Salaries and wages | \$ 805,262 | \$ 705,983 |
| Payroll taxes | 68,476 | 60,918 |
| Employee benefits | 285,937 | 276,996 |
| Library materials and supplies | 91,613 | 109,709 |
| Office supplies | 40,059 | 32,430 |
| Small equipment | 26,013 | 14,107 |
| Repairs and maintenance | 116,967 | 174,150 |
| Utilities | 9,833 | 9,274 |
| Insurance | 12,938 | 12,638 |
| Vehicle expenses | 25,104 | 27,722 |
| Telephone and internet | 181,778 | 130,929 |
| Postage | 3,450 | 4,057 |
| Publicity | 8,052 | 14,382 |
| Travel and training | 58,541 | 34,370 |
| Professional fees | 16,895 | 20,900 |
| Depreciation expense | 116,014 | 73,170 |
| Grant expense | 50,936 | 37,704 |
| Member library pass through | 642,118 | 722,144 |
| | <u>\$ 2,559,986</u> | <u>\$ 2,461,583</u> |