

SOUTHERN TIER LIBRARY SYSTEM

PAINTED POST, NEW YORK

AUDITED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2022 AND 2021

PRELIMINARY DRAFT FOR REVIEW AND DISCUSSION

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PRELIMINARY DRAFT FOR REVIEW AND DISCUSSION

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Southern Tier Library System

Qualified Opinion

We have audited the financial statements of Southern Tier Library System, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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 section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of Southern Tier Library System as of December 31, 2022 and 2021, 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.

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 nor provided related disclosure which, in our opinion, should be recorded and disclosed 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, 2022 and 2021, or on the statements of activities for the years ended December 31, 2022 and 2021. 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 F and G.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Southern Tier Library System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Change in Accounting Principle

As discussed in Note A to the financial statements, in 2022, the entity adopted new accounting guidance related to accounting for leases. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Southern Tier Library System's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Southern Tier Library System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Southern Tier Library System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Elmira, New York

Opinion Date

SOUTHERN TIER LIBRARY SYSTEM

BALANCE SHEETS

<u>ASSETS</u>	December 31,	
	<u>2022</u>	<u>2021</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 962,917	\$ 2,176,409
Accounts receivable	347,273	132,798
Prepaid expenses	<u>88,657</u>	<u>89,476</u>
TOTAL CURRENT ASSETS	1,398,847	2,398,683
<u>PROPERTY AND EQUIPMENT</u>		
Building and building improvements	2,092,488	1,011,113
Furniture, fixtures and equipment	352,511	217,660
Internet fiber	960,843	862,208
Vehicles	<u>146,288</u>	<u>125,230</u>
	3,552,130	2,216,211
Less allowance for depreciation	<u>(1,759,612)</u>	<u>(1,630,864)</u>
	1,792,518	585,347
Construction in progress	<u>-</u>	<u>88,571</u>
	1,792,518	673,918
<u>OTHER ASSETS</u>		
Collections	-	-
Operating lease right-of-use assets	<u>613,174</u>	<u>-</u>
	613,174	-
	<u>\$ 3,804,539</u>	<u>\$ 3,072,601</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 16,076	\$ 57,478
Accrued payroll and related withholdings	9,337	9,146
Accrued benefit time	138,984	134,276
Operating lease liabilities	96,540	-
Grant advance	<u>3,598</u>	<u>328,778</u>
TOTAL CURRENT LIABILITIES	264,535	529,678
<u>OTHER LIABILITY</u> - Operating lease liabilities	<u>516,634</u>	<u>-</u>
TOTAL LIABILITIES	781,169	529,678
<u>NET ASSETS</u>		
Without donor restrictions:		
Operating	2,442,611	2,073,866
Board designated	<u>350,000</u>	<u>350,000</u>
	2,792,611	2,423,866
With donor restrictions	<u>230,759</u>	<u>119,057</u>
	<u>3,023,370</u>	<u>2,542,923</u>
	<u>\$ 3,804,539</u>	<u>\$ 3,072,601</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,		
	2022			2021		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Support and revenue:						
General library aid	\$ 1,006,349	\$ -	\$ 1,006,349	\$ 972,376	\$ -	\$ 972,376
Local services aid	96,382	-	96,382	92,916	-	92,916
Outreach aid	120,955	-	120,955	129,005	-	129,005
Other grants	-	776,234	776,234	-	202,829	202,829
Member library pass through	600,556	-	600,556	579,873	-	579,873
Member library automation fee	411,619	-	411,619	395,382	-	395,382
Telecommunications E-rate discount	320,377	-	320,377	303,365	-	303,365
Other income	78,082	-	78,082	67,528	-	67,528
Interest	537	-	537	620	-	620
Paycheck Protection Program grant income	-	-	-	-	195,845	195,845
Net assets released from restrictions	664,532	(664,532)	-	415,470	(415,470)	-
TOTAL SUPPORT AND REVENUE	3,299,389	111,702	3,411,091	2,956,535	(16,796)	2,939,739
Expenses:						
Program services	2,434,226	-	2,434,226	2,343,618	-	2,343,618
Management and general	496,418	-	496,418	506,877	-	506,877
TOTAL EXPENSES	2,930,644	-	2,930,644	2,850,495	-	2,850,495
CHANGE IN NET ASSETS	368,745	111,702	480,447	106,040	(16,796)	89,244
Net assets at beginning of year	2,423,866	119,057	2,542,923	2,317,826	135,853	2,453,679
NET ASSETS AT END OF YEAR	\$ 2,792,611	\$ 230,759	\$ 3,023,370	\$ 2,423,866	\$ 119,057	\$ 2,542,923

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

SOUTHERN TIER LIBRARY SYSTEM

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2022
(With Comparative Totals for 2021)

	Program Services						Supporting	Year ended December 31,	
	Member Services	Outreach	Information Technology	Pass Through	Professional Development For Members	Total Program Services	Services Management and General	2022	2021
								Total	Total
Salaries and wages	\$ 139,431	\$ 39,643	\$ 379,536	\$ 16,269	\$ 162,040	\$ 736,919	\$ 217,150	\$ 954,069	\$ 930,416
Payroll taxes	10,195	2,788	28,910	1,245	11,550	54,688	26,301	80,989	80,023
Employee benefits	16,633	13,263	70,622	-	44,737	145,255	150,747	296,002	342,750
Library materials and supplies	8,562	11,403	-	-	835	20,800	-	20,800	27,770
Office supplies	218	-	648	-	816	1,682	3,088	4,770	6,047
Small equipment	-	-	13,248	-	86	13,334	-	13,334	12,491
Building repairs and maintenance	2,831	3,775	7,550	-	2,831	16,987	1,888	18,875	21,890
Equipment repairs and maintenance	15,475	-	89,920	-	565	105,960	1,481	107,441	104,927
Utilities	1,752	2,336	4,673	-	1,752	10,513	1,169	11,682	8,084
Insurance	1,929	2,572	5,145	-	1,929	11,575	1,287	12,862	12,969
Vehicle expenses	30,946	-	-	-	-	30,946	3,999	34,945	34,128
Telephone and internet	-	-	202,718	-	-	202,718	-	202,718	286,598
Postage	2,123	-	-	-	-	2,123	1,003	3,126	1,099
Publicity	-	-	-	-	-	-	8,299	8,299	3,989
Travel and training	249	-	1,331	-	22,379	23,959	7,436	31,395	21,140
Professional fees	6,913	175	150	-	1,484	8,722	16,717	25,439	16,986
Depreciation expense	28,449	37,932	75,865	-	28,449	170,695	18,967	189,662	213,882
Grant expense	236,104	6,375	-	7,862	-	250,341	36,886	287,227	143,785
Member library pass through	-	25,000	-	602,009	-	627,009	-	627,009	581,521
	<u>\$ 501,810</u>	<u>\$ 145,262</u>	<u>\$ 880,316</u>	<u>\$ 627,385</u>	<u>\$ 279,453</u>	<u>\$ 2,434,226</u>	<u>\$ 496,418</u>	<u>\$ 2,930,644</u>	<u>\$ 2,850,495</u>

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

SOUTHERN TIER LIBRARY SYSTEM

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2021

	Program Services					Supporting Services		
	Member Services	Outreach	Information Technology	Pass Through	Professional Development For Members	Total Program Services	Management and General	2021 Total
Salaries and wages	\$ 139,843	\$ 74,116	\$ 310,683	\$ 15,242	\$ 148,658	\$ 688,542	\$ 241,874	\$ 930,416
Payroll taxes	9,717	5,376	26,103	1,166	10,995	53,357	26,666	80,023
Employee benefits	18,784	13,931	79,300	-	47,653	159,668	183,082	342,750
Library materials and supplies	14,053	13,033	(258)	-	942	27,770	-	27,770
Office supplies	247	160	71	-	-	478	5,569	6,047
Small equipment	-	-	12,491	-	-	12,491	-	12,491
Building repairs and maintenance	3,284	4,378	8,756	-	3,284	19,702	2,188	21,890
Equipment repairs and maintenance	13,376	-	89,472	-	892	103,740	1,187	104,927
Utilities	1,213	1,617	3,234	-	1,213	7,277	807	8,084
Insurance	1,945	2,594	5,188	-	1,945	11,672	1,297	12,969
Vehicle expenses	29,978	-	-	-	-	29,978	4,150	34,128
Telephone and internet	-	-	286,598	-	-	286,598	-	286,598
Postage	710	-	-	-	3	713	386	1,099
Publicity	-	-	-	-	-	-	3,989	3,989
Travel and training	190	867	3,016	-	15,206	19,279	1,861	21,140
Professional fees	972	175	13	-	4,162	5,322	11,664	16,986
Depreciation expense	32,082	42,776	85,553	-	32,082	192,493	21,389	213,882
Grant expense	60,693	49,719	-	32,605	-	143,017	768	143,785
Member library pass through	-	-	-	581,521	-	581,521	-	581,521
	<u>\$ 327,087</u>	<u>\$ 208,742</u>	<u>\$ 910,220</u>	<u>\$ 630,534</u>	<u>\$ 267,035</u>	<u>\$ 2,343,618</u>	<u>\$ 506,877</u>	<u>\$ 2,850,495</u>

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

SOUTHERN TIER LIBRARY SYSTEM

STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2022	2021
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 480,447	\$ 89,244
Adjustments to reconcile change in net assets to net cash provided from (used for) operating activities:		
Depreciation	189,662	213,882
Paycheck Protection Program grant income	-	(195,845)
Changes in certain assets and liabilities affecting operations:		
Accounts receivable	(214,475)	491,880
Prepaid expenses	819	(18,191)
Accounts payable	(41,402)	(158,732)
Accrued payroll and related withholdings	191	(7,038)
Accrued benefit time	4,708	11,708
Grant advance	(325,180)	166,109
NET CASH PROVIDED FROM OPERATING ACTIVITIES	94,770	593,017
<u>CASH FLOWS - INVESTING ACTIVITY</u>		
Purchase of property and equipment, net of disposals	(1,308,262)	(106,011)
NET CASH USED FOR INVESTING ACTIVITY	(1,308,262)	(106,011)
<u>CASH FLOWS - FINANCING ACTIVITY</u>		
Proceeds from Paycheck Protection Program loan	-	195,845
NET CASH PROVIDED FROM FINANCING ACTIVITY	-	195,845
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,213,492)	682,851
Cash and cash equivalents at beginning of year	2,176,409	1,493,558
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 962,917	\$ 2,176,409

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

SOUTHERN TIER LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Library System

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.

Cash and cash equivalents

For purposes of presentation in the balance sheet, the System considers highly liquid investments with a maturity of three months or less which are available for operations to be 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 \$788,000 at December 31, 2022. 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. Based on the information available, the System believes no allowance for doubtful accounts at December 31, 2022 and 2021 is necessary.

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 five 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.

Construction in progress is stated at cost. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put in use.

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, 2022 AND 2021

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

Leases

The System leases access to internet fiber connections for the System and certain member libraries and determines if an arrangement is a lease at inception. The operating lease is included in operating lease right-of-use (ROU) assets and operating lease liabilities on the accompanying statements of financial position.

ROU assets represent the System's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The System uses an incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the System will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

The System's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The System has elected to apply the short-term lease exemption to all classes of underlying assets. Short term leases are not material.

In evaluating contracts to determine if they qualify as a lease, the System considers factors such as if the System has obtained substantially all of the rights to the underlying asset through exclusivity, if the System can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

Net assets

Net assets, revenue, and other support are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions:

Net assets available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions:

Net assets subject to donor-imposed restrictions. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

SOUTHERN TIER LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2022 AND 2021

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

Revenue recognition

Library aid

The System is funded primarily through New York State Education Department (SED) library aid. Library aid is allocated by SED based on formulas defined in Education Law. The System recognizes revenue when it receives notification of its allocated funding. Accounts receivable includes approximately \$57,000 and \$20,000 from Library Aid as of December 31, 2022 and 2021, respectively.

Other grants

Unconditional grants, including unconditional promises to give, are recognized as revenues in the period received. Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Conditional grants, including conditional promises to give, are recognized as revenue in the period in which the specified conditions are substantially met and no further barrier to recognition exists. Amounts received are classified as grant advances until recognized as revenue. The System has no conditional grants at December 31, 2022. The System was awarded conditional grants totaling \$603,312 at December 31, 2021, that had not been recognized because the project conditions had not been met. Grant advances of \$325,180 had been received as of December 31, 2021. Accounts receivable related to conditional grants in which the conditions have been met amounted to \$116,000 at December 31, 2022.

The System assists member libraries in obtaining state and other grants. These grants are received by the System and passed through to member libraries. The passthrough revenue and expense is recognized when the grants are received.

Revenues from contracts with member libraries

Revenues are recognized when a good or service is transferred to a member library or reading center. A good or service is transferred when (or as) the member library or reading center obtains control of that good or service. Revenues are based on the consideration the System expects to receive in connection with its promises to deliver goods and services to member libraries and reading centers. Performance obligations are transferred to member libraries and reading centers at a point in time.

The System provides automation services to member libraries and reading centers. The transaction price is based upon a predetermined rate, set by the System, based on costs incurred and prorated to each member library and reading center. Revenue is recognized ratably throughout the year and is reported as member library automation fee in the accompanying statements of activities. The System invoices member libraries and reading centers annually or quarterly.

The System also provides technology and other services to member libraries and reading centers. The transaction price is based upon predetermined rates based on services provided. Revenue is recognized at a point in time when the service is provided.

Accounts receivable includes approximately \$25,000 and \$30,000 of billed and unpaid services as of December 31, 2022 and 2021, respectively.

SOUTHERN TIER LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2022 AND 2021

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

Telecommunications E-rate discount

The System receives E-rate discounts on telecommunication services, internet connectivity, and internal connections. Discounts are determined based on economic need, location and category of service. The System incurs eligible costs and applies for the E-rate discount reimbursement on a semi-annual basis. Revenue is recognized in the period the eligible costs are incurred based on the calculated allowable E-rate discount. Accounts receivable includes approximately \$149,000 and \$83,000 for E-rate discount at both December 31, 2022 and 2021, respectively.

Functional allocation of expenses

The costs of programs and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program and supporting services benefited.

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, 2022, the System would not be subject to U.S. federal income tax examinations by tax authorities for years ended prior to December 31, 2019. The tax returns for the years ended December 31, 2019 through December 31, 2022 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.

Adoption of new accounting standard - leases

In February 2016, the FASB issued a new standard related to leases to increase transparency and comparability among entities by requiring the recognition of ROU assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. The System adopted ASC 842 with the date of initial application of January 1, 2022.

As part of the adoption of ASC 842, the System elected practical expedients to account for the existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard; (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance; or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

SOUTHERN TIER LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2022 AND 2021

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

As a result of the adoption of the new lease accounting guidance, the System recognized on January 1, 2022 a lease liability of \$688,118, which represents the present value of the remaining operating lease payments of \$742,980, discounted using the System's incremental borrowing rate, and a right-of-use asset of \$688,118.

The standard had a material impact on the accompanying statements of financial position, but did not have an impact on the statements of activities and changes in net assets, nor the statements of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

New accounting pronouncement – credit losses

In June 2016 the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" (ASU 2016-13), which requires entities to use a new impairment model referred to as the current expected credit losses (CECL) model rather than incurred losses. The new standard affects accounting for loans, accounts (trade) receivable, held-to-maturity debt securities, and other financial assets included in the scope. For non-public entities, the new standard is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The System is currently evaluating the provisions of this standard to determine the impact the new standard will have on the System's financial position or results of operations.

Subsequent events

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

NOTE B: LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following at December 31, 2022 and 2021:

	December 31,	
	2022	2021
Cash and cash equivalents	\$ 962,917	\$ 2,176,409
Accounts receivable	347,273	132,798
	<u>\$ 1,310,190</u>	<u>\$ 2,309,207</u>

As part of the System's liquidity management, it structures its financial assets to be available as its general expenditures and other obligations become due. The board has designated \$350,000 as capital reserves. Although the System does not intend to spend from those board designated funds for general expenditures, these amounts could be made available if necessary.

SOUTHERN TIER LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2022 AND 2021

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: NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are as follows:

	December 31,	
	2022	2021
Undesignated	\$ 650,093	\$ 1,399,948
Investment in property and equipment	1,792,518	673,918
Board designated capital reserve	350,000	350,000
	<u>\$ 2,792,611</u>	<u>\$ 2,423,866</u>

NOTE E: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes:

	December 31,	
	2022	2021
Internet fiber capital expenditures	\$ 83,011	\$ 97,806
Family and adult literacy	7,649	11,542
Technology	126,077	-
Other	14,022	9,709
	<u>\$ 230,759</u>	<u>\$ 119,057</u>

NOTE F: 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, 2022 and 2021 amounted to \$87,206 and \$115,578 respectively.

SOUTHERN TIER LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2022 AND 2021

NOTE G: 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 June 30, 2024. Effective July 2015, no new employees are eligible for this benefit. The System is currently paying a total of \$6,014 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, 2022 and 2021, or on the statements of activities for the years then ended.

NOTE H: LEASES

The System has operating lease agreements for access to internet fiber connections for the System and certain member libraries with total current monthly lease payments of \$9,095 through December 31, 2028, including renewable periods the System is reasonably certain to exercise. Operating lease expense for the years ended December 31, 2022 and 2021 amounted to \$107,640 and \$105,140, respectively.

As of December 31, 2022, minimum payments due for lease liabilities are as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2023	\$ 109,140
2024	109,140
2025	109,140
2026	109,140
2027	109,140
Thereafter	<u>109,140</u>
Total lease payments	654,840
Less: Interest	<u>(41,666)</u>
Present value of lease liabilities	<u><u>\$ 613,174</u></u>

Supplemental information for operating leases:

Cash paid for amounts included in the measurement of lease liabilities	\$ 107,640
Right-of-use assets obtained in exchange for new lease liabilities (non-cash)	\$ 17,909
Weighted-average remaining lease term	6.00 years
Weighted-average discount rate	2.25%

SOUTHERN TIER LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2022 AND 2021

NOTE I: FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributable to program and supporting functions. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and related expenses which are allocated based on time and effort, as well as facility costs and depreciation which are allocated on a square footage basis.

NOTE J: PAYCHECK PROTECTION PROGRAM

In January 2021, the System applied for and was approved by a bank for a second draw loan of \$195,845 through the Paycheck Protection Program. The loan was funded on February 1, 2021 and forgiven on November 9, 2021.

PRELIMINARY DRAFT FOR REVIEW AND DISCUSSION