

FRANKLIN COUNTY LIBRARY SYSTEM

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2016

FRANKLIN COUNTY LIBRARY SYSTEM

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Franklin County Library System
Chambersburg, Pennsylvania

We have audited the accompanying modified cash basis financial statements of the general fund of the Franklin County Library System (a nonprofit organization), as of and for the year ended December 31, 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 System'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 System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the general fund of the Franklin County Library System as of and for the year ended December 31, 2016, and the changes in modified cash basis financial position thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Franklin County Library System's basic financial statements. The supplementary information on pages 17-19 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Emphasis of Matter

As discussed in Note 1, the financial statements present only the general fund and do not purport to, and do not present fairly the financial position of the Franklin County Library System, as of December 31, 2016, and the changes in its financial position for the year then ended in accordance with the modified cash basis of accounting. Our opinion is not modified with respect to this matter.

Rotz & Stonesifer, P. C.

Chambersburg, Pennsylvania
May 12, 2017

FRANKLIN COUNTY LIBRARY SYSTEM

BALANCE SHEET MODIFIED CASH BASIS

December 31, 2016

ASSETS

| | |
|-------------------------|---------------------|
| Cash & cash equivalents | \$ 1,410,136 |
| Investments | 960,439 |
| TOTAL ASSETS | \$ 2,370,575 |

FUND BALANCE

| | |
|---------------------------|---------------------|
| Restricted | \$ 618,119 |
| Committed | 360,284 |
| Assigned | 45,689 |
| Unassigned | 1,346,483 |
| TOTAL FUND BALANCE | \$ 2,370,575 |

See accompanying notes to financial statements.

FRANKLIN COUNTY LIBRARY SYSTEM

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE MODIFIED CASH BASIS

For the Year Ended December 31, 2016

Revenues

| | |
|---|------------------|
| County library tax | \$ 1,399,352 |
| State aid | 767,382 |
| Contributions/memorials/sponsorships/grants | 689,734 |
| Unrealized gain on investments | 51,499 |
| Annual appeal | 49,863 |
| Passport sales | 47,685 |
| Local government support | 28,652 |
| Interest & dividends | 26,512 |
| Fines | 26,203 |
| Special events | 22,209 |
| Photocopies & printouts | 19,988 |
| Miscellaneous receipts & sales | 5,707 |
| Video rental | 4,645 |
| Program fees & rentals | 797 |
| Realized loss on sale of investments | (1,154) |
| Total Revenues | <u>3,139,074</u> |

Expenditures

| | |
|----------------------------------|-----------|
| Coyle construction | 1,322,437 |
| Salaries & wages | 992,691 |
| Professional fees | 306,786 |
| Alexander Hamilton transfers | 213,495 |
| Books purchased | 133,689 |
| Health insurance | 126,870 |
| Payroll taxes | 94,891 |
| Utilities | 70,837 |
| Technology & online services | 69,183 |
| Insurance | 57,512 |
| Maintenance & repairs - building | 51,505 |
| Pension | 37,422 |
| Fundraising & special events | 31,136 |
| Printing & public relations | 25,641 |
| Rent - equipment | 20,994 |
| Library programs | 19,395 |
| Audio visuals | 19,066 |

(Continued)

| | |
|---|----------------------------|
| Furniture & equipment | 18,961 |
| Supplies | 16,733 |
| Periodicals | 15,021 |
| Telephone | 13,126 |
| Maintenance & repairs - vehicles | 11,465 |
| Rent - building | 10,700 |
| Cataloging & resource management system | 10,661 |
| Maintenance & repairs - equipment | 10,336 |
| Trustee fees | 10,120 |
| Postage | 10,063 |
| Inter-library delivery | 7,966 |
| Interest | 4,680 |
| Travel | 4,500 |
| Vehicle fuel | 4,370 |
| Inter-library loan services | 4,218 |
| Book rentals | 4,110 |
| Dues & fees | 3,548 |
| Passport | 2,495 |
| Continuing education | 2,455 |
| Besore transfers | 1,641 |
| Total Expenditures | <u>3,760,719</u> |
| Deficiency of Revenues Over Expenditures | (621,645) |
| Other Financing Sources | |
| Loan Proceeds | <u>838,506</u> |
| Net Change in Fund Balance | 216,861 |
| Fund Balance | |
| January 1, 2016 | <u>2,153,714</u> |
| December 31, 2016 | <u><u>\$ 2,370,575</u></u> |

See accompanying notes to financial statements.

FRANKLIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS

MODIFIED CASH BASIS

For the Year Ended December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Franklin County Library System (System) is a nonprofit organization incorporated under the laws of the Commonwealth of Pennsylvania. The System is intended as a centralized clearinghouse for branch libraries within a prescribed district. The concept intends to achieve an operating efficiency for the overall district operation and to limit the number of entities competing for governmental grants and/or subsidies. The System receives funds from branch libraries as well as directly from various governmental and other agencies. The System also acts as the central buying and disbursement entity for the System's branch libraries. The System operates under a nine-member board of directors whom are appointed by the County Commissioners of Franklin County, based on the final recommendation of individuals by the Franklin County Library System Board of Directors. These nine directors shall be selected to provide a balanced representation of all public library service areas of the county.

The Franklin County Library System is solely responsible for the operations of the following branch libraries:

- Coyle Free Library - Chambersburg, Pennsylvania
- Grove Family Library - Chambersburg, Pennsylvania
- Saint Thomas Library - Saint Thomas, Pennsylvania
- Fort Loudon Library - Fort Loudon, Pennsylvania

The Franklin County Library System also maintains responsibility for all library service operations, as defined in agreements entered into with the individual advisory boards, for the following branch libraries:

- Besore Memorial Library - Greencastle, Pennsylvania
- Blue Ridge Summit Free Library - Blue Ridge Summit, Pennsylvania

Reporting Entity

The Governmental Accounting Standards Board defines the criteria used to determine the composition of the reporting entity. The standards require that the financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally-separate organizations if its officials appoint a voting majority of an organization's governing body and it is either able to impose its will on that organization or there is potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial-benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provided financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

FRANKLIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS

MODIFIED CASH BASIS

For the Year Ended December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Reporting Entity - continued

Some organizations are included as component units because of their fiscal dependency on the primary government. An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government.

Based on the aforementioned criteria, the System is a component unit of the Franklin County. The System Board of Directors is approved by the County. The System does not exercise oversight responsibility over any other organization and no other organization is a component unit of the System.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

The System’s basic financial statements are reported using the “current financial resources” measurement focus, as applied to the modified cash basis of accounting. Revenue is recognized when received. Expenditures generally are recorded when paid. Costs for capital outlays and payments for debt service are recognized as expenditures in the period paid.

The System policy is to prepare its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This basis differs from accounting principles generally accepted in the United States of America in that revenues are recognized when received rather than when earned and expenses are recognized when paid rather than when the obligation is incurred. The System also records the proceeds of loans as receipts and the subsequent loan payments as disbursements, and cash payments for capital items are recorded as disbursements.

When both restricted and unrestricted resources are available for use, it is the System’s policy to use unrestricted budgeted resources first, restricted resources, then unrestricted unbudgeted resources as they are needed.

Budgets and Budgetary Accounting

The Board of Directors adopts annual budgets for the System, which are prepared using the cash basis of accounting. These budgets are not legally required. Therefore, no budgetary comparison schedules are required to supplement the basic financial statements.

Assets, Liabilities and Fund Balance

Investments: Investments are recorded at fair market value. Unrealized appreciation and depreciation due to changes in the fair value of such investments is recognized annually. The System reports all investments at fair value.

FRANKLIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS

MODIFIED CASH BASIS

For the Year Ended December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Assets, Liabilities and Fund Balance – continued

Fund Balance: In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the System classifies fund balance as follows:

- Nonspendable – includes fund balance amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors, grantors, contributors, or laws and regulations of other governments, or amounts constrained by law through constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the System through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the governing body itself or a body or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.
- Unassigned – includes fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes.

Approval of an official motion at a formal meeting by the System Board of Directors is required to establish, modify, or rescind committed fund balance. The System Board of Directors, Executive Director or the Business Manager have the authority to express intended uses of resources that result in assigned fund balance.

When expenditures are incurred for purposes for which both restricted and unrestricted resources are available, the System's policy is to spend resources in the following order:

1. Unrestricted – Budgeted
2. Restricted
3. Unrestricted – Unbudgeted

Unless the System Board of Directors specifically approves the use of committed resources, or the System Board of Directors or authorized body or official specifically approves the use of assigned resources, the System's policy is to spend unrestricted resources in the following order:

1. Unassigned
2. Assigned
3. Committed

The System does not have a formal minimum fund balance policy.

FRANKLIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS

MODIFIED CASH BASIS

For the Year Ended December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Assets, Liabilities and Fund Balance – continued

A schedule of fund balance at December 31, 2016, is as follows:

FUND BALANCE:

Restricted

| | |
|---|------------|
| Coyle Free Library | \$ 301,384 |
| Coyle Free Library capital construction | 142,393 |
| Bookmobile | 91,823 |
| Grove Family Library | 32,167 |
| St. Thomas Library | 15,004 |
| Special projects | 18,663 |
| Besore Memorial Library | 6,716 |
| Ft. Loudon Library | 4,950 |
| Grants | 4,268 |
| Blue Ridge Summit Free Library | 751 |
| | <hr/> |
| | 618,119 |

Committed

| | |
|---|---------|
| Franklin County Library System capital construction | 360,284 |
|---|---------|

Assigned

| | |
|--------------------------------|--------|
| Blue Ridge Summit Free Library | 26,758 |
| Book Buggy | 984 |
| Special projects | 17,947 |
| | <hr/> |
| | 45,689 |

Unassigned

1,346,483

TOTAL FUND BALANCE

\$ 2,370,575

FRANKLIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS

MODIFIED CASH BASIS

For the Year Ended December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Use of Estimates: Management uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities and the reported revenue, expenditures/expenses and disclosures. Actual results could differ from those estimates.

Income Taxes: The System qualifies as a tax-exempt organization under 501(c)(3) of the Internal Revenue Code. Therefore, no provision for federal income tax has been made. In addition, the System qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2). However, the System engages in the sale of passports, which is considered unrelated business income by the Internal Revenue Service. As such, this income less the related expenses is subject to federal income tax.

The System is subject to potential examination by the Internal Revenue Service. However, the System is not currently under audit nor has the System been contacted by the Internal Revenue Service. Management believes the System is no longer subject to tax examinations for years prior to 2013. The System has evaluated its tax positions for all open tax years and management believes all material tax positions taken would be upheld under an examination. If assessed, the System classifies any interest and penalties recognized with a tax position as expenditures.

Sales Tax: The System collects sales tax on applicable transactions. The amount collected is included in receipts and the remittance is included in disbursements in the financial statements.

Subsequent Events: In preparing these financial statements, the System has evaluated events and transactions for potential recognition or disclosure through May 12, 2017, the date the financial statements were available to be issued.

NOTE 2: DEPOSITS AND INVESTMENTS

The System's investment objective is to provide maximum investment return, consistent with the exercise of good business practice. The assets must be invested with the care, skill and diligence that a prudent person acting in this capacity would use and must have a blend of quality, security and diversification, which will produce both a dependable flow of income and stable growth. In order to meet these objectives, with the least possible risk, assets may be allocated as follows:

- Equities may constitute up to seventy percent of the Fund's market value with a minimum requirement of fifty percent. The target is sixty percent.
- Fixed income securities (including preferred stocks) may constitute up to fifty percent of the Fund's market value with a minimum requirement of thirty percent. The target is thirty-seven percent.
- Cash equivalents may constitute up to twenty percent of the Fund's market value with a minimum requirement of two percent. The target is three percent.

FRANKLIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS

MODIFIED CASH BASIS

For the Year Ended December 31, 2016

NOTE 2: DEPOSITS AND INVESTMENTS - continued

As of December 31, 2016, the System's investment accounts consist of the following:

Mutual Funds:

| | | |
|-------------------------|-----------|------------------------------|
| Equity - large | \$ | 362,005 |
| Equity - mid | | 70,160 |
| Equity - small | | 59,776 |
| Equity - foreign | | 43,941 |
| Bond | | 368,114 |
| Cash Equivalents | | <u>56,443</u> |
| Totals | \$ | <u><u>960,439</u></u> |

Fair market value is determined based on level 1 inputs, which are determined by quoted prices available in an active market.

Asset allocations at December 31, 2016, adhere to the System's investment policy.

Custodial-Credit Risk: Deposits

Custodial-credit risk is the risk that in the event of bank failure, the System's deposits may not be returned to it. As of December 31, 2016, \$978,258 of the System's total deposit account bank balances (including certificates of deposit) of \$1,281,466 was exposed to custodial-credit risk as follows:

| | | |
|---|----|---------|
| Uninsured and collateralized by assets maintained in conformity with Act 72, held by the pledging financial institution's trust department or agent but not in the System's name. | \$ | 978,258 |
|---|----|---------|

Act 72 is an act standardizing the procedures for pledges of assets to secure deposits of public funds with banking institutions pursuant to other laws; establishing a standard rule for the types, amounts and valuations of assets eligible to be used as collateral for deposits of public funds; permitting assets to be pledged against deposits on a pooled basis and authorizing the appointment of custodians to act as the pledgers of the assets.

FRANKLIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS

MODIFIED CASH BASIS

For the Year Ended December 31, 2016

NOTE 2: DEPOSITS AND INVESTMENTS - continued

Credit Risk: Investments

As of December 31, 2016, the System had the following investments:

| | <u>Rating</u> | <u>Fair Values</u> |
|---|---------------|--------------------|
| Money Markets | | |
| Federated Government Obligations Fund 117 - Principal (GOFXX) | AAAm | \$ 55,890 |
| Federated Government Obligations Fund 117 - Income (GOFXX) | AAAm | 553 |
| Mutual Funds - Equities | | |
| Federated Kaufmann Large Cap R6 Fund (KLCSX) | 3 Star | 171,118 |
| JPMorgan Val Adv Select Fund 1399 (JVASX) | 4 Star | 190,886 |
| Vanguard Mid Cap Index Adm Shs Fund 5859 (VIMAX) | 4 Star | 4,764 |
| Ivy Mid Cap Growth Fund 490 (IYMIX) | 2 Star | 27,278 |
| JHancock3 Disciplines Value Mid Cap I (JVMIX) | 5 Star | 38,118 |
| Undiscovered Managers Behavioral Fund (UBVLX) | 5 Star | 34,863 |
| Vanguard Small Cap Growth Index Fund 861 (VISGX) | 3 Star | 24,913 |
| International Value I (MINIX) | 5 Star | 19,368 |
| T. Rowe Price International GR & Inc Fund Class I (TRTIX) | 3 Star | 24,574 |
| Mutual Funds - Bonds | | |
| Federated Total Return Bond Fund 328 (FTRBX) | 4 Star | 107,272 |
| PIMCO Income Instl Fund 1821 (PIMIX) | 5 Star | 92,749 |
| T. Rowe Price Instl Floating Rate Fund 170 (RPIFX) | 4 Star | 83,660 |
| Vanguard Short Term Investment-Grade Fund Admiral (VFSUX) | 4 Star | 84,433 |
| | | <u>\$ 960,439</u> |

All investment assets are administered by F&M Trust Company. The System's investment policy limits the composition of its investments as a means of managing its exposure to the risk that an issuer or counterparty will not fulfill its obligation. The System limits investments according to their credit ratings. Mutual funds must have a minimum three star rating by Morningstar and fixed income securities must have a rating of "A" or higher by Moody's or Standard & Poor's.

Interest-Rate Risk

The System's investment policy limits the investment maturities of fixed income securities as a means of managing its exposure to fair-value losses arising from increasing interest rates. Fixed income securities must have no more than fifteen years to expected maturity.

FRANKLIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS

MODIFIED CASH BASIS

For the Year Ended December 31, 2016

NOTE 2: DEPOSITS AND INVESTMENTS - continued

Concentrations of Credit Risk

The System's investment policy limits the amount allowed to be invested in any one issuer as a means of managing its exposure to credit risk. No more than ten percent of the market value of the investment shall be invested in one single equity. No more than ten percent of the market value of the investment shall be invested in fixed income securities of a single issuer (with the exception of U.S. government issues). Investments in mutual funds are diversified among many different equities and bonds.

Foreign Currency Risk

The System does not have a formal investment policy that limits foreign investments.

As of December 31, 2016, the System had the following foreign investments:

| | |
|---------------------------------|------------------|
| Mutual Funds - Equity - Foreign | <u>\$ 43,941</u> |
|---------------------------------|------------------|

NOTE 3: LONG-TERM OBLIGATIONS

During the year ended December 31, 2016, long-term obligations changed as follows:

| | <u>Balance</u> <u>January 1, 2016</u> | <u>Increase</u> | <u>Decrease</u> | <u>Balance</u> <u>December 31, 2016</u> |
|-----------------------------|--|-------------------|-----------------|--|
| F&M Coyle Construction Loan | <u>\$ -</u> | <u>\$ 838,506</u> | <u>\$ -</u> | <u>\$ 838,506</u> |

In June 2016, the Library System entered into a conduit debt agreement with the Chambersburg Area Municipal Authority (the Authority) and F&M Trust Company (the Lender). According to the terms of the agreement, the Lender shall agree to lend to the Authority an amount not to exceed \$5,000,000 for purposes of the Coyle Library capital building project, whereby the Authority shall agree, *inter alia*, to issue the Series of 2016 Project Note to the Lender and to lend such funds to the Library System. The Series of 2016 Project Note and the Library System's obligations are secured by the mortgaged property, other pledged assets, and the project cash accounts. The Library System shall make interest only payments beginning in July 2016 and continuing through June 2026, at which time the outstanding principal balance will be due. The note bears a variable rate of interest equal to 66% of LIBOR plus 2.75% that resets on the first day of each month beginning in July 2016. The Library System is expected to pay outstanding principal on the note no less frequently than on an annual basis from funds available in the project account that are not being used to pay for capital project costs. Total interest expense on the project note for the year ended December 31, 2016 was \$3,650.

FRANKLIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS

MODIFIED CASH BASIS

For the Year Ended December 31, 2016

NOTE 4: PENSION PLAN

The System has a 403(b) tax sheltered annuity plan. The plan is governed by the System, which may amend plan provisions, and which is responsible for the management of plan assets. The System has delegated the authority to manage certain plan assets to Principal Financial Group. Participating employees may contribute up to 15% of their salary, not to exceed certain specified deferral limits. Upon completion of six months of employment and 500 hours of service, the System contributes 5% of their salary. Total contributions by the System for the year ended December 31, 2016 were \$37,422.

NOTE 5: RISK MANAGEMENT

The System is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets, and errors or omissions. Significant losses are covered by commercial insurance for all major programs. For insured programs, there have been no significant reductions in settlement coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 6: LEASE OBLIGATIONS

In April 2010, the System entered into a three-year operating lease agreement with the Saint Thomas Township Volunteer Fire and Rescue Company, Inc. to provide both operating and parking facilities for the Saint Thomas Library, which is a branch library of the System. This lease was renewed in April 2013 for an additional three-year period, which expired on April 30, 2016. The lease calls for monthly rental payments of \$725 to the fire company. At the request of the System, this lease may automatically renew for one additional three-year period, with an annual rent not to exceed \$10,000. In May 2017, the System chose to renew the lease for the additional three year term. The terms of the new lease agreement require monthly payments of \$725 through April 2018, monthly payments of \$775 from May 2018 through April 2019 and payments of \$825 from May 2019 through April 2020.

The System leases seven copiers under a sixty-three (63) month agreement with Centric. The lease requires monthly payments of \$1,038 and was effective February 2015. An amendment was made to this lease, which requires an additional monthly payment of \$72 and was effective January 2016. The System leases an eighth copier from Centric under a thirty-nine (39) month lease agreement. This lease requires monthly payments of \$136 starting in March 2017 and continuing through June 2020.

The System leases three postage meters from Pitney Bowes. Two of these leases require sixty (60) monthly payments of \$107 and \$29, respectively, and were effective July 2012 and July 2014, respectively. The other lease requires forty-eight (48) monthly payments of \$36 and was effective June 2015.

Total rent expense under operating leases for the year ended December 31, 2016 amounted to \$25,170.

FRANKLIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS

MODIFIED CASH BASIS

For the Year Ended December 31, 2016

NOTE 6: LEASE OBLIGATIONS – continued

Future minimum lease obligations under non-cancelable operating leases with a term greater than one year are as follows for the years ending December 31:

| | | |
|---------------------------------|----|---------------|
| 2017 | \$ | 24,808 |
| 2018 | | 24,837 |
| 2019 | | 25,009 |
| 2020 | | 8,556 |
| Total minimum lease obligations | \$ | <u>83,210</u> |

NOTE 7: CONCENTRATIONS

The Franklin County Library System relies heavily on state and local government funds. In financial accounting, the continuation of an entity's operations is usually assumed in the absence of evidence to the contrary. However, an organization which depends on direct support from governmental agencies is subject to legislative action, which could significantly affect the amount of support it receives. During the year ended December 31, 2016, state and local government funds consisted of 70% of total revenues.

NOTE 8: DONATED PROGRAM SERVICES

A portion of the System's functions are conducted by unpaid volunteers. The value of this contributed time is not reflected in the accompanying financial statements because it is not susceptible to objective measurement or valuation.

NOTE 9: CHARITABLE GIFT ANNUITY

In December of 2003, the System was given a charitable gift annuity in the form of 275 shares of M&T Bank Corp stock that had a fair market value of \$25,979 on the date of the donation. The annuity requires quarterly payments of \$292. For the year ended December 31, 2016, interest paid to the annuitants by the System amounted to \$1,169.

FRANKLIN COUNTY LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS

MODIFIED CASH BASIS

For the Year Ended December 31, 2016

NOTE 10: COMMITMENTS

At December 31, 2016, the System had commitments for engineering services and construction contracts relating to the following project:

| <u>Project</u> | <u>Amount</u> |
|-------------------------------------|-------------------|
| Coyle Free Library Building Project | <u>\$ 141,103</u> |

SUPPLEMENTARY INFORMATION

FRANKLIN COUNTY LIBRARY SYSTEM

SCHEDULE OF CASH AND TRUST BALANCES, RECEIPTS AND DISBURSEMENTS

MODIFIED CASH BASIS

For the Year Ended December 31, 2016

| | <u>FCLS</u> | <u>Trust FCLS</u> | <u>Trust Covle</u> | <u>IMA Blue Ridge Summit</u> | <u>IMA Covle</u> | <u>IMA FCLS</u> | <u>Special Accounts</u> | <u>Total</u> |
|--|------------------|-----------------------|------------------------|--------------------------------------|----------------------|---------------------|-----------------------------|------------------|
| Cash and Trust Balances - January 1, 2016 | \$ 469,515 | \$ 534,274 | \$ 251,900 | \$ 25,418 | \$ 215,730 | \$ 140,396 | \$ 516,481 | \$ 2,153,714 |
| Cash Receipts | | | | | | | | |
| County library tax | 1,399,352 | - | - | - | - | - | - | 1,399,352 |
| Construction loan proceeds | 838,506 | - | - | - | - | - | - | 838,506 |
| State aid | 767,382 | - | - | - | - | - | - | 767,382 |
| Contributions/memorials/sponsorships/grants | 67,448 | 470 | - | - | - | - | 621,816 | 689,734 |
| Unrealized gain on investments | - | 25,489 | 12,867 | 1,636 | 6,107 | 5,400 | - | 51,499 |
| Annual appeal | 19,115 | - | - | - | - | - | 30,748 | 49,863 |
| Passport sales | - | - | - | - | - | - | 47,685 | 47,685 |
| Local government support | 28,652 | - | - | - | - | - | - | 28,652 |
| Interest & dividends | 3,883 | 11,904 | 5,598 | 574 | 645 | 3,773 | 135 | 26,512 |
| Fines | 26,203 | - | - | - | - | - | - | 26,203 |
| Special events | - | - | - | - | - | - | 22,209 | 22,209 |
| Photocopies & printouts | 19,988 | - | - | - | - | - | - | 19,988 |
| Miscellaneous receipts & sales | 2,918 | - | - | - | - | - | 2,789 | 5,707 |
| Video rental | 4,645 | - | - | - | - | - | - | 4,645 |
| Program fees & rentals | 797 | - | - | - | - | - | - | 797 |
| Realized gain (loss) on sale of investments | - | 6,368 | 2,496 | (44) | (10,555) | 581 | - | (1,154) |
| Transfer of operating funds | (679,737) | (22,030) | (11,007) | (526) | (211,905) | (25,000) | 950,205 | - |
| Total Cash Receipts | 2,499,152 | 22,201 | 9,954 | 1,640 | (215,708) | (15,246) | 1,675,587 | 3,977,580 |

(Continued)

| | <u>FCLS</u> | <u>Trust FCLS</u> | <u>Trust Covle</u> | <u>IMA Blue Ridge Summit</u> | <u>IMA Covle</u> | <u>IMA FCLS</u> | <u>Special Accounts</u> | <u>Total</u> |
|----------------------------------|-------------|-----------------------|------------------------|--------------------------------------|----------------------|---------------------|-----------------------------|--------------|
| Cash Disbursements | | | | | | | | |
| Coyle construction | - | - | - | - | - | - | 1,322,437 | 1,322,437 |
| Salaries & wages | 990,371 | - | - | - | - | - | 2,320 | 992,691 |
| Professional fees | 20,096 | - | - | - | - | - | 286,690 | 306,786 |
| Alexander Hamilton transfers | 189,350 | - | - | - | - | - | 24,145 | 213,495 |
| Books purchased | 124,656 | - | - | - | - | - | 9,033 | 133,689 |
| Health insurance | 126,870 | - | - | - | - | - | - | 126,870 |
| Payroll taxes | 94,891 | - | - | - | - | - | - | 94,891 |
| Utilities | 70,837 | - | - | - | - | - | - | 70,837 |
| Technology & online services | 66,320 | - | - | - | - | - | 2,863 | 69,183 |
| Insurance | 57,512 | - | - | - | - | - | - | 57,512 |
| Maintenance & repairs - building | 40,016 | - | - | - | - | - | 11,489 | 51,505 |
| Pension | 37,422 | - | - | - | - | - | - | 37,422 |
| Fundraising & special events | 1,000 | - | - | - | - | - | 30,136 | 31,136 |
| Printing & public relations | 10,571 | - | - | - | - | - | 15,070 | 25,641 |
| Rent - equipment | 20,641 | - | - | - | - | - | 353 | 20,994 |
| Library programs | 9,840 | - | - | - | - | - | 9,555 | 19,395 |
| Audio visuals | 10,649 | - | - | - | - | - | 8,417 | 19,066 |
| Furniture & equipment | 3,179 | - | - | - | - | - | 15,782 | 18,961 |
| Supplies | 14,394 | - | - | - | - | - | 2,339 | 16,733 |
| Periodicals | 12,390 | - | - | - | - | - | 2,631 | 15,021 |
| Telephone | 13,126 | - | - | - | - | - | - | 13,126 |
| Maintenance & repairs - vehicles | 7,520 | - | - | - | - | - | 3,945 | 11,465 |

(Continued)

| | <u>FCLS</u> | <u>Trust FCLS</u> | <u>Trust Covle</u> | <u>IMA Blue Ridge Summit</u> | <u>IMA Covle</u> | <u>IMA FCLS</u> | <u>Special Accounts</u> | <u>Total</u> |
|--|-------------------|-----------------------|------------------------|--------------------------------------|----------------------|---------------------|-----------------------------|---------------------|
| Rent - building | 8,700 | - | - | - | - | - | 2,000 | 10,700 |
| Cataloging & resource management system | 10,661 | - | - | - | - | - | - | 10,661 |
| Maintenance & repairs - equipment | 3,043 | - | - | - | - | - | 7,293 | 10,336 |
| Trustee fees | - | 6,513 | 2,006 | 300 | 22 | 1,279 | - | 10,120 |
| Postage | 4,912 | - | - | - | - | - | 5,151 | 10,063 |
| Inter-library delivery | 7,966 | - | - | - | - | - | - | 7,966 |
| Interest | 4,680 | - | - | - | - | - | - | 4,680 |
| Travel | 2,863 | - | - | - | - | - | 1,637 | 4,500 |
| Vehicle fuel | 4,370 | - | - | - | - | - | - | 4,370 |
| Inter-library loan services | 4,218 | - | - | - | - | - | - | 4,218 |
| Book rentals | 4,110 | - | - | - | - | - | - | 4,110 |
| Dues & fees | 3,548 | - | - | - | - | - | - | 3,548 |
| Passport | - | - | - | - | - | - | 2,495 | 2,495 |
| Continuing education | 2,455 | - | - | - | - | - | - | 2,455 |
| Besore transfers | - | - | - | - | - | - | 1,641 | 1,641 |
| Total Cash Disbursements | <u>1,983,177</u> | <u>6,513</u> | <u>2,006</u> | <u>300</u> | <u>22</u> | <u>1,279</u> | <u>1,767,422</u> | <u>3,760,719</u> |
| Cash and Trust Balances - December 31, 2016 | <u>\$ 985,490</u> | <u>\$ 549,962</u> | <u>\$ 259,848</u> | <u>\$ 26,758</u> | <u>\$ -</u> | <u>\$ 123,871</u> | <u>\$ 424,646</u> | <u>\$ 2,370,575</u> |