

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

**FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION
DECEMBER 31, 2015**

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

LIBRARY SYSTEM OF LANCASTER COUNTY
LANCASTER, PENNSYLVANIA

DECEMBER 31, 2015

C O N T E N T S

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES	4
STATEMENTS OF CASH FLOWS	5
NOTES TO THE FINANCIAL STATEMENTS	6
SUPPLEMENTAL INFORMATION:	
DETAILED OPERATING EXPENSES	11
ANALYSIS OF STATE AND COUNTY FUNDING TO MEMBER LIBRARIES	12

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Library System of Lancaster County
Lancaster, Pennsylvania

We have audited the accompanying financial statements of Library System of Lancaster County (a nonprofit organization), which comprise the statements of financial position as of December 31, 2015 and 2014, 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 audit. 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Library System of Lancaster County as of December 31, 2015 and 2014, 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental information on pages 11 and 12 are presented for the purpose 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 audit 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, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Sager, Swisher and Company, LLP

Lancaster, Pennsylvania
September 21, 2016

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

**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014**

	2015	2014
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 753,985	\$ 510,272
Accounts Receivable	71,711	129,793
Prepaid Expenses	108,350	88,757
Total Current Assets	934,046	728,822
Property and Equipment		
Furniture and Equipment	494,163	480,427
Vehicles	12,140	12,140
Leasehold Improvements	148,405	148,405
Total Property and Equipment	654,708	640,972
Less Accumulated Depreciation	441,826	391,845
Net Property and Equipment	212,882	249,127
Other Assets		
Security Deposit	4,718	4,718
Certificate of Deposit	257,653	250,000
Total Other Assets	262,371	254,718
TOTAL ASSETS	\$ 1,409,299	\$ 1,232,667
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 76,190	\$ 43,537
Accrued Wages	629	807
Due to Member Libraries – Discounts	(2,031)	(285)
Accrued Expenses	15,752	14,720
Deferred Revenue	9,612	8,932
Due to Member Libraries Fundraisers	5,757	5,757
Due to Council of Friends	3,042	3,071
Total Current Liabilities	108,951	76,539
TOTAL LIABILITIES	108,951	76,539
NET ASSETS		
Unrestricted Net Assets		
Board Designated	1,042,902	902,284
Undesignated	257,446	253,844
Total Unrestricted Net Assets	1,300,348	1,156,128
Temporarily Restricted Net Assets	--	--
Permanently Restricted Net Assets	--	--
TOTAL NET ASSETS	1,300,348	1,156,128
TOTAL LIABILITIES AND NET ASSETS	\$ 1,409,299	\$ 1,232,667

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

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

**STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
CHANGES IN UNRESTRICTED NET ASSETS		
PUBLIC SUPPORT AND OTHER REVENUE		
Public Support		
State Funding		
Quality Aid	\$ 605,069	\$ 605,069
Excellence Aid	690,021	690,021
County Coordination Aid	223,620	223,620
Equal Grant Aid	31,943	31,943
Total State Funding	1,550,653	1,550,653
County Funding	1,993,739	1,993,739
Total State and County Funding	3,544,392	3,544,392
Less Disbursements to Member Libraries	1,473,971	1,473,971
State and County Funding Retained by the System	2,070,421	2,070,421
Grants	38,080	22,277
Less Grants Disbursed to Member Libraries	--	--
Grants Retained by the System	38,080	22,277
Total Public Support	2,108,501	2,092,698
Other Revenue	12,208	12,766
TOTAL PUBLIC SUPPORT AND OTHER REVENUE	2,120,709	2,105,464
OPERATING EXPENSES		
Salaries and Benefits	1,066,855	1,255,922
Collection Expenses	266,450	271,117
Operating Overhead	183,814	177,893
Programs and Services	398,143	371,136
Local Grant Expenses	11,246	10,907
Depreciation Expense	49,981	47,363
TOTAL OPERATING EXPENSES	1,976,489	2,134,338
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	144,220	(28,874)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	--	--
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	--	--
INCREASE (DECREASE) IN NET ASSETS	144,220	(28,874)
NET ASSETS – BEGINNING OF YEAR	1,156,128	1,185,002
NET ASSETS – END OF YEAR	\$ 1,300,348	\$ 1,156,128

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

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

**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 144,220	\$ (28,874)
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	49,981	47,363
(Increase) Decrease in		
Accounts Receivable	58,082	4,298
Prepaid Expense	(19,593)	7,347
Security Deposit	--	617
Increase (Decrease) In		
Accounts Payable	32,653	(50,037)
Accrued Wages	(178)	162
Accrued Expenses	1,032	(3,309)
Due to Council of Friends	(29)	(1,456)
Due to Staff Association	--	(373)
Due to Member Libraries – Discounts	(1,746)	(546)
Due to Member Library Fundraisers	--	2,500
Deferred Revenue	680	7,562
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 265,102	 (14,746)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment	(13,736)	(41,630)
 NET CASH (USED) BY INVESTING ACTIVITIES	 (13,736)	 (41,630)
 CASH FLOWS FROM FINANCING ACTIVITIES	 --	 --
 NET INCREASE (DECREASE) IN CASH	 251,366	 (56,376)
 CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	 760,272	 816,648
 CASH AND CASH EQUIVALENTS – END OF YEAR	 \$ 1,011,638	 \$ 760,272

**SUPPLEMENTAL CASH FLOW DISCLOSURES
YEARS ENDED DECEMBER 31, 2015 AND 2014**

Cash Paid for		
Interest	\$ --	\$ --
Income Taxes	\$ --	\$ --

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

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 – ORGANIZATION SUMMARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION SUMMARY

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

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

B. Fixed Assets and Depreciation

Fixed assets with a useful life more than one year and a composite cost of over \$2,500 are carried at cost (fair value if contributed) less accumulated depreciation computed using the straight-line method over their estimated useful lives.

C. Accounts Receivable

It is the Organization’s policy to record an allowance for doubtful accounts based on management’s assessment of the collectability of specific balances and the aging of accounts receivable. Management has determined that no valuation allowance for uncollectible accounts is required as of December 31, 2015 and 2014.

D. Advertising

The Organization follows the policy of charging the cost of advertising to expense as incurred. Amounts charged to expense for advertising for the years ended December 31, 2015 and 2014 totaled \$7,843 and \$6,757.

E. Cash and Cash Equivalents

For the purpose of the statement of cash flows, The Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

F. Investments

The Organization reflects investments within its financial statements in accordance with the FASB ASC Topic relating to investments. Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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

G. Donations

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

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

H. Grants and Contracts

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

I. Financial Statement Presentation

Under the FASB ASC Topic relating to financial statement presentation, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

J. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

K. Uncertain Tax Positions

The Organization has adopted the provisions of the FASB ASC Topic relating to Income Taxes, relating to accounting for uncertainty in income taxes. The Organization recognizes the benefits or liabilities associated with a tax position during the period which, based on available evidence, management believes it is more likely than not that the position will be upheld upon examination. Tax positions that are other than routine business transactions are reevaluated annually. Generally the statute of limitations for filed returns is three years from the date of filing.

Management is not aware of any uncertain positions taken by the Organization.

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

L. Compensated Absences

The Organization maintains a leave time policy in which employees can accrue earned leave time. Employees may carry over a maximum of half their annual eligibility of unused vacation time to the next year. The maximum amount that could be carried over by any employee is 12.5 days. Employees will be compensated for their balance of accrued vacation time upon voluntary termination or retirement. Employees may also carry over a maximum 975 hours of earned sick leave and are eligible, upon retirement, to receive payment of half their sick leave balance, up to 20 days.

It is the Organization's policy to record an accrued liability for material compensated absences. There were no material compensated absences requiring recognition as a liability as of December 31, 2015 and 2014.

M. Financial Instruments

GAAP requires disclosure of an estimate of fair value of certain financial instruments. The Organization's significant financial instruments are cash and cash equivalents, accounts receivable, and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value.

N. Contributed Services

No amounts have been reflected in the financial statements for contributed services because they do not meet the criteria established by the FASB ASC topic relating to Donated Services. However, board and committee members, and volunteers have donated significant amounts of their time to the Organization.

O. Management's Review

Management has evaluated subsequent events through September 21, 2016, the date the financial statements were available to be issued.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents are composed of the following as of December 31, 2015 and 2014:

	2015	2014
Integrity Bank General Account	\$ 499,477	\$ 256,989
Fulton Bank Council of Friends General Account	3,042	3,071
Integrity Bank Money Market	251,466	250,212
	\$ 753,985	\$ 510,272

NOTE 3 – CONCENTRATIONS

The Organization has checking accounts and a certificate of deposit at local banks. Bank deposits totaled \$970,502 and \$850,387 as of December 31, 2015 and 2014, respectively, of which \$253,042 and \$253,071 are federally insured. Other amounts included in cash are not federally insured. All excess amounts are collateralized by a pool of marketable securities. This pool meets the requirement of Act 72, 1971 Session of the Pennsylvania General Assembly concerning deposits of public funds

The revenue from the County of Lancaster totaled \$1,993,739 or 56% of total revenue and \$1,993,739 or 56% of total revenue for the years ended December 31, 2015 and 2014, respectively. The revenue from the Commonwealth of Pennsylvania totaled \$1,550,653 or 44% of total revenue and \$1,550,653 or 43% of total revenue for the years ended December 31, 2015 and 2014, respectively.

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 – NET ASSETS – BOARD DESIGNATED

Board Designated net assets consist of the following as of December 31, 2015 and 2014:

	2015	2014
Designated by the Board of Trustees for short-term operating expenses and long-term capital expenditures.	<u>\$ 1,042,902</u>	<u>\$ 902,284</u>

NOTE 5 – LONG-TERM LEASE

The Organization entered into a 5-year property lease from December 1, 2011 through November 30, 2016. The property lease is for facilities from which the Organization conducts its central operations. Rent payments are fixed at \$4,718 base per month for the first year. In the second through the fifth year the minimum fixed annual rent will increase per schedule in lease agreement. Additional rents for Common Area Maintenance and HVAC Maintenance are assessed at the beginning of the calendar year based on budgeted amounts and reconciled annually with actual expenditures by the landlord. For the calendar year 2015 and 2014, fixed rent payments totaled \$80,736 and \$78,669, respectively.

NOTE 6 – RETIREMENT

The Organization offers a salary reduction tax deferred annuity under Internal Revenue Code section 403(b). All employees are required, as a condition of employment, to participate after completion of a 90-day introductory period. Under this plan, pre-tax contributions are made for the calendar years 2015 and 2014 of 5% of the employee's gross wages or the maximum allowable under current IRS regulations, whichever is less. Additionally, the Organization contributes 5% of the employees' gross wages up to the maximum allowed by law. Contributions made for the years ended December 31, 2015 and 2014 were \$37,435 and \$39,793, respectively.

NOTE 7 – BOOKMOBILE

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

NOTE 8 – FUNCTIONAL ALLOCATION OF EXPENSES

Functional expenses are charged directly to program, management and general, or fundraising in general categories based on specific identification. The allocation of total expenses as of December 31, 2015 and 2014 is as follows:

	2015	2014
Program Expenses	\$ 1,587,511	\$ 1,656,643
Management & General Expenses	374,292	469,365
Fundraising Expenses	<u>14,686</u>	<u>8,330</u>
	<u>\$ 1,976,489</u>	<u>\$ 2,134,338</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 9 – CONTINGENCIES

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

NOTE 10 – DEFERRED REVENUE

Deferred revenue as of December 31, 2015 and 2014 consists of the following:

	2015	2014
United Way 1,000 Books Grant	\$ 6,093	\$ 6,093
Education Improvement Tax Credit	2,800	2,800
Other Deferred Revenue	719	39
	\$ 9,612	\$ 8,932

NOTE 11 – MEMBER LIBRARY COMPUTER RECEIVABLE

In November 2012, the Library System of Lancaster County entered into a three year agreement with the member libraries to purchase 224 personal computers on their behalf. The Library System subsidized each computer in the amount of \$100.00 and financed the remaining balance over three years. The financing was interest free. As the computers were purchased, a corresponding receivable was established with signed agreement that payments to The Library System would be taken directly from each libraries State aid over the next three years as follows:

2013	\$	34,917
2014		20,132
2015		20,132
	\$	75,181

NOTE 12 – CERTIFICATE OF DEPOSIT

Certificate of deposit as of December 31, 2015 represents a \$255,528 12-month CD opened on April 1, 2015 at a fixed rate of 1.1%. Accrued interest through December 31, 2015 of \$2,125 is included in the balance of \$257,653.

Certificate of deposit as of December 31, 2014 represents a \$250,000 24-month CD opened on March 25, 2013 at a fixed rate of 1.1%.

SUPPLEMENTAL INFORMATION
OF
LIBRARY SYSTEM OF LANCASTER COUNTY
LANCASTER, PENNSYLVANIA
DECEMBER 31, 2015

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

**DETAILED OPERATING EXPENSES
YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
OPERATING EXPENSES		
Salaries and Benefits		
Salaries and Wages	\$ 852,262	\$ 997,841
Benefits	<u>214,593</u>	<u>258,081</u>
Total Salaries and Benefits	<u>1,066,855</u>	<u>1,255,922</u>
Collection Expenses		
Books	8,907	8,904
Subscriptions	1,185	1,179
Overdrive Subscription	12,000	12,000
Audio Visual	3,740	1,186
Computer Service Fees	67,645	79,023
Internet Access Fees	95,436	103,418
Collection Processing	<u>77,537</u>	<u>65,407</u>
Total Collection Expenses	<u>266,450</u>	<u>271,117</u>
Operating Overhead		
Property and Vehicle Expenses	34,014	35,006
Rent	80,736	78,669
Postage and Shipping	1,446	1,183
Supplies – Printing, Office and Computer	2,808	9,247
Accounting Services	20,291	12,554
Legal Services	1,638	4,113
Other Contracted Services	37,468	17,121
Miscellaneous Operating	<u>5,413</u>	<u>20,000</u>
Total Operating Overhead	<u>183,814</u>	<u>177,893</u>
Programs and Services		
Computer Expenses	190,056	239,418
Website Development and Maintenance	111,868	25,208
Bookmobile	6,361	7,718
Postage and Shipping	6,488	8,202
Supplies – Printing, Office and Computer	8,919	22,680
Telephone and Other Telecommunications	15,925	216
Public Relations Expenses	7,843	10,340
Library Programs	32,796	32,127
Travel and Conferences	3,135	2,303
Dues, Memberships and Events	1,948	4,733
Training and Development	12,614	17,608
Miscellaneous Operating Expenses	<u>190</u>	<u>583</u>
Total Programs and Services	<u>398,143</u>	<u>371,136</u>
Local Grant Expenses	<u>11,246</u>	<u>10,907</u>
Depreciation Expense	<u>49,981</u>	<u>47,363</u>
TOTAL OPERATING EXPENSES	<u>\$ 1,976,489</u>	<u>\$ 2,134,338</u>

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

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

**ANALYSIS OF STATE AND COUNTY FUNDING TO MEMBER LIBRARIES
YEAR ENDED DECEMBER 31, 2015**

	<u>State Aid</u>	<u>County Aid</u>	<u>Grand Total</u>
Funding	\$ 1,550,653	\$ 1,993,739	\$ 3,544,392
Disbursements			
Adamstown Area Library	59,916	9,482	69,398
Columbia Public Library	40,436	4,492	44,928
ELANCO Library	49,672	8,115	57,787
Elizabethtown Library	77,258	9,473	86,731
Ephrata Library	178,430	10,114	188,544
Lancaster Public Library	350,611	57,208	407,819
Lititz Public Library	106,425	9,631	116,056
Manheim Community Library	39,952	6,601	46,553
Manheim Township Library	122,936	11,398	134,334
Milanof-Schock Library	61,193	8,237	69,430
Moores Memorial Library	41,774	3,038	44,812
Pequea Valley Public Library	82,806	9,136	91,942
Quarryville Library	52,620	11,120	63,740
Strasburg Heisler Library	48,254	3,643	51,897
Total Disbursements	<u>1,312,283</u>	<u>161,688</u>	<u>1,473,971</u>
Funding Retained by System	<u>\$ 238,370</u>	<u>\$ 1,832,051</u>	<u>\$ 2,070,421</u>

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