



***FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
YEARS ENDED DECEMBER 31, 2015 AND 2014***

DRAFT

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DRAFT

INDEPENDENT AUDITORS' REPORT

To The Board of Trustees
Westchester Library System
Tarrytown, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Westchester Library System which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, cash flows and functional expenses 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Westchester Library System as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated **March xx**, 2016 on our consideration of Westchester Library System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Westchester Library System's internal control over financial reporting and compliance.

Saddle Brook, New Jersey

March xx, 2016

WESTCHESTER LIBRARY SYSTEM
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2015	2014
Cash and cash equivalents	\$ 3,959,925	\$ 3,515,888
Grants receivable	337,244	586,273
Accounts and other receivables	70,252	89,385
Prepaid expenses	451,403	362,592
Computer inventory	31,796	3,068
Property and equipment, net	294,089	347,990
Security deposits	35,737	35,737
 Total assets	 \$ 5,180,446	 \$ 4,940,933

LIABILITIES AND NET ASSETS

Accounts payable	\$ 421,624	\$ 455,713
Deferred revenue	651,749	517,485
Capital lease obligation		7,197
Post-retirement benefits payable	4,116,348	3,822,358
 Total liabilities	 5,189,721	 4,802,753
 Net assets:		
Unrestricted:		
Undesignated	3,511,975	3,344,739
Accumulated post-retirement benefits	(4,116,348)	(3,822,358)
Board designated	487,361	487,040
 Total unrestricted	 (117,012)	 9,421
 Temporarily restricted	 107,737	 128,759
 Total net assets	 (9,275)	 138,180
 Total liabilities and net assets	 \$ 5,180,446	 \$ 4,940,933

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

WESTCHESTER LIBRARY SYSTEM

STATEMENTS OF ACTIVITIES

	Year ended December 31, 2015		Year ended December 31, 2014		
	Unrestricted	Temporarily restricted	Unrestricted	Temporarily restricted	Total
Operating support and revenues:					
Support and revenues:					
Governmental support:					
State grants	\$ 2,072,095	\$ 206,797	\$ 2,078,892	\$ 178,045	\$ 2,179,690
County grants	1,000,000	17,460	1,017,460	32,460	1,032,460
Federal grants		171,563	171,563	162,023	162,023
Total governmental support	<u>3,072,095</u>	<u>395,820</u>	<u>3,467,915</u>	<u>372,528</u>	<u>3,374,173</u>
Private support:					
Contributions	60,109	95,547	155,656	72,251	167,356
Special events, net of direct expenses of \$18,059 and \$26,121 for 2015 and 2014, respectively	<u>(1,104)</u>		<u>(1,104)</u>		<u>9,370</u>
Total private support	<u>59,005</u>	<u>95,547</u>	<u>154,552</u>	<u>72,251</u>	<u>176,726</u>
Total governmental and private support	<u>3,131,100</u>	<u>491,367</u>	<u>3,622,467</u>	<u>444,779</u>	<u>3,550,899</u>
Revenues:					
Member technology fees	2,716,797		2,716,797		2,658,272
Interest income	3,750		3,750		3,773
Realized gain on disposal of equipment	5,669		5,669		
Other revenue	<u>42,715</u>		<u>42,715</u>		<u>24,182</u>
Total revenues	<u>2,768,931</u>		<u>2,768,931</u>		<u>2,686,227</u>
Net assets released from restrictions	<u>512,389</u>	<u>(512,389)</u>		<u>(490,312)</u>	
Total operating support and revenues	<u>6,412,420</u>	<u>(21,022)</u>	<u>6,391,398</u>	<u>(45,533)</u>	<u>6,237,126</u>
Expenses:					
Program services:					
Technology	2,544,650		2,544,650		2,523,214
Public service	<u>2,623,278</u>		<u>2,623,278</u>		<u>2,677,685</u>
Total program services	<u>5,167,928</u>		<u>5,167,928</u>		<u>5,200,899</u>
Supporting services:					
Management and general	985,897		985,897		891,899
Fundraising	<u>155,897</u>		<u>155,897</u>		<u>159,470</u>
Total supporting services	<u>1,141,794</u>		<u>1,141,794</u>		<u>1,051,369</u>
Total expenses	<u>6,309,722</u>		<u>6,309,722</u>		<u>6,252,268</u>
Change in net assets before changes in post-retirement benefit obligation	<u>102,698</u>	<u>(21,022)</u>	<u>81,676</u>	<u>(45,533)</u>	<u>(15,142)</u>
Changes in post-retirement benefit obligation other than periodic costs	<u>(229,131)</u>		<u>(229,131)</u>		<u>(906,448)</u>
Change in net assets	<u>(126,433)</u>	<u>(21,022)</u>	<u>(147,455)</u>	<u>(45,533)</u>	<u>(921,590)</u>
Net assets, beginning of year	<u>9,421</u>	<u>128,759</u>	<u>138,180</u>	<u>174,292</u>	<u>1,059,770</u>
Net assets, end of year	<u>\$ (117,012)</u>	<u>\$ 107,737</u>	<u>\$ (9,275)</u>	<u>\$ 128,759</u>	<u>\$ 138,180</u>

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

WESTCHESTER LIBRARY SYSTEM

STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (147,455)	\$ (921,590)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	145,477	96,472
Realized gain on disposal of equipment	(5,669)	
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Grants receivable	249,029	(142,575)
Accounts and other receivables	19,133	(33,080)
Prepaid expenses	(88,811)	(8,743)
Computer inventory	(28,728)	65,494
Increase (decrease) in:		
Accounts payable	(34,089)	134,147
Deferred revenue	134,264	33,356
Post retirement benefits payable	293,990	789,617
Net cash provided by operating activities	<u>537,141</u>	<u>13,098</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(85,907)</u>	<u>(217,979)</u>
Net cash used in investing activities	<u>(85,907)</u>	<u>(217,979)</u>
Cash flows from financing activities:		
Payment of capital lease obligation	<u>(7,197)</u>	<u>(5,963)</u>
Net cash used in financing activities	<u>(7,197)</u>	<u>(5,963)</u>
Net increase (decrease) in cash and cash equivalents	444,037	(210,844)
Cash and cash equivalents, beginning of year	<u>3,515,888</u>	<u>3,726,732</u>
Cash and cash equivalents, end of year	<u>\$ 3,959,925</u>	<u>\$ 3,515,888</u>

Supplemental Cash Flow Information

Cash paid during the year for:		
Interest	<u>\$ 445</u>	<u>\$ 1,093</u>

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

WESTCHESTER LIBRARY SYSTEM
STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31, 2015 and 2014

	Program services				
	Technology		Public service		Total
	2015	2014	2015	2014	
Salaries	\$ 799,123	\$ 735,629	\$ 969,910	\$ 912,328	\$ 1,647,957
Fringe benefits	334,231	294,541	367,020	342,081	701,251
Total salaries and related expenses	<u>1,133,354</u>	<u>1,030,170</u>	<u>1,336,930</u>	<u>1,254,409</u>	<u>2,470,284</u>
Professional fees	4,469	4,188	1,328	965	5,797
Equipment	136,928	294,046	5,270	8,482	142,198
Books, film, etc.	156,975	131,740	112,054	239,836	269,029
Periodicals	94,800	97,012	20,093	36,900	20,093
Rent and utilities	347,371	453,709	133,700	133,044	228,500
Repairs and maintenance	3,931	4,196	302	3,368	347,673
Supplies	287,287	310,938	22,608	16,819	26,539
Telephone and internet	3,852	739	262	194	287,549
Printing and postage	219,246	53,895	29,715	23,847	33,567
Database	1,570	12,239	210,242	257,563	429,488
Conferences	8,430	10,005	35,392	17,634	36,962
Travel	655	1,845	16,591	11,667	25,021
Memberships	4,475	25,078	800	781	1,455
Contracts processing	11,429	10,280	323,954	302,355	328,429
Delivery service			371,033	364,000	371,033
Insurance					11,429
Interest					
Miscellaneous	1,924	4,292	3,004	5,821	4,928
Depreciation	<u>127,954</u>	<u>78,842</u>			<u>127,954</u>
Total expenses	<u>\$ 2,544,650</u>	<u>\$ 2,523,214</u>	<u>\$ 2,623,278</u>	<u>\$ 2,677,685</u>	<u>\$ 5,167,928</u>
					<u>\$ 5,200,899</u>

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

WESTCHESTER LIBRARY SYSTEM
STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31, 2015 and 2014

	Management and general		Supporting services		Total	Total program and	
	2015	2014	2015	2014		2015	2014
Salaries	\$ 382,666	\$ 354,696	\$ 104,546	\$ 101,173	\$ 487,212	\$ 455,869	\$ 2,103,826
Fringe benefits	440,084	288,390	37,878	41,036	477,962	329,426	966,048
Total salaries and related expenses	822,750	643,086	142,424	142,209	965,174	785,295	3,069,874
Professional fees	22,306	22,281	520		22,826	22,281	27,434
Equipment	390	671			390	671	303,199
Books, film, etc.	9,843				9,843		371,576
Periodicals	703	166		77	703	243	37,143
Rent and utilities	33,245	49,646	6,700	6,467	39,945	56,113	286,169
Repairs and maintenance	8,837	12,365			8,837	12,365	469,442
Supplies	12,587	9,230		128	12,587	9,358	30,373
Telephone and internet	1,879	2,148	2,570	2,746	4,449	4,894	316,026
Printing and postage	14,475	24,353	2,497	2,112	16,972	26,465	51,051
Database							429,488
Conferences	8,174	60,984	85	75	8,259	61,059	90,932
Travel	4,515	6,908	606	1,096	5,121	8,004	29,676
Memberships	10,579	7,410	480	1,560	11,059	8,970	11,596
Contracts processing	6,393	18,905			6,393	18,905	346,338
Delivery service							371,033
Insurance	9,008	9,945			9,008	9,945	20,225
Interest	445	1,093			445	1,093	1,093
Miscellaneous	2,245	5,078	15	3,000	2,260	8,078	18,191
Depreciation	17,523	17,630			17,523	17,630	96,472
Total expenses	\$ 985,897	\$ 891,899	\$ 155,897	\$ 159,470	\$ 1,141,794	\$ 1,051,369	\$ 6,252,268

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

WESTCHESTER LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

1. Summary of significant accounting policies

This summary of significant accounting policies of Westchester Library System (the Organization) is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America as promulgated in *FASB Accounting Standards Codification* (the Codification), and have been consistently applied in the preparation of the financial statements.

Nature of the Organization

The Westchester Library System coordinates the efforts of a cooperative of the 38 public libraries serving Westchester County. Its purpose is to provide cost-effective centralized services that reflect economies of scale or specialized expertise which the individual member library cannot afford. The Organization encourages the coordination and sharing of resources among members, provides and supports the technological infrastructure used by member libraries, offers staff development and training for Organization and member library staff and provides advocacy at the local, county, state, and national levels to improve awareness of funding for libraries.

Financial statement presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. The Board has resolved that certain unrestricted funds be held as "Board Designated" that may only be expended at the Board's discretion.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. There were no permanently restricted assets as of December 31, 2015 or 2014.

Estimates

The preparation of financial statements 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 and revenues and expenses during the period. Accordingly, actual results could differ from those estimates.

WESTCHESTER LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

1. Summary of significant accounting policies (continued)

Cash and cash equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents are stated at cost, which approximates market value.

Computer inventory

Inventories consist of personal computers and other types of computer equipment that are purchased by the Organization for its members. The items are sold to the members at the Organization's cost. The items are carried at cost, determined on a first-in, first-out basis.

Prepaid expenses

Funds disbursed for expenses that will be incurred in future periods are recorded as prepaid expenses.

Property and equipment

Property and equipment are stated at cost. Depreciation is provided on the straight-line method at rates based on the following estimated useful lives:

Furniture and equipment	3 - 8 years
Leasehold improvements	10 years

The cost of assets sold or otherwise disposed of and the accumulated depreciation thereon are eliminated from the accounts and the resulting gain or loss is reflected in income except for assets traded where no cash is received. Expenditures for maintenance and repairs are charged to income as incurred; replacements and betterments in excess of \$5,000 that extend the useful lives, are capitalized.

Income taxes

The Organization is a not-for-profit corporation that has been granted exemptions from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is also exempt from state income tax. As such, no provision for federal or state income taxes has been made in these financial statements.

Uncertain tax positions

As of December 31, 2015, management believes that, based on evaluation of the Organization's tax positions, any liability as a result of uncertain tax positions would not be material. Management continually evaluates expiring statutes of limitations, changes in tax law, and new authoritative rulings to assist in evaluating the Organization's tax positions. Accrued interest and penalties associated with uncertain tax positions, if any, would be recognized as part of the income tax provision. Income tax returns are filed in the U.S. federal jurisdiction and state jurisdictions. U.S. federal and state income tax returns prior to fiscal year 2012 are closed.

Functional allocation of expenses

The costs of providing various programs and support services have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain expenses have been allocated among the programs and supporting services based on management's best estimates.

WESTCHESTER LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

1. Summary of significant accounting policies (continued)

Allowance for doubtful receivables

The Organization determines whether an allowance for uncollectible receivables should be provided, based on management's assessments of the age of the Organization's receivables, current economic conditions and historical experience. As of December 31, 2015 and 2014, the Organization determined that an allowance was not necessary.

Deferred revenue

Funds received that have not been earned as of the year end dates are reflected as deferred revenue.

Contributions

Contributions, including unconditional pledges, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Contributions are recognized when the conditions on which they depend are substantially met. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 presentation.

2. Risks and uncertainties

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents, accounts and other receivables and grants receivable. The Organization maintains its cash in bank deposit accounts, the balances of which, at times, may exceed federally insured limits. In order to limit their exposure, the Organization and the bank have entered into a collateral and control agreement. Under that agreement, the bank has agreed to secure funds not insured by the Federal Deposit Insurance Corporation by pledging securities as defined in New York State statutes. Concentrations of credit risk with respect to 1) accounts and other receivables are limited due to the number of libraries comprising the Organization's member base and the generally short payment terms and 2) grants receivable are limited due to the fact that grants are received from governmental organizations.

3. Significant source of support

During the years ended December 31, 2015 and 2014, the Organization received approximately 36% and 35%, respectively, of its total support and revenues from grants from the State of New York and approximately 16% and 17%, respectively, from Westchester County Grants.

WESTCHESTER LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

4. Cash

The Organization's cash and cash equivalents accounts are comprised of the following:

	December 31,	
	2015	2014
Interest bearing accounts	\$ 3,959,725	\$ 3,515,688
Non-interest bearing accounts	200	200
	\$ 3,959,925	\$ 3,515,888

5. Grants receivable

Grants receivable consist of the following:

	December 31,	
	2015	2014
Institute of Museum and Library Services	\$ 85,244	\$ 48,007
New York State		288,266
Westchester County	250,000	250,000
Other	2,000	
	\$ 337,244	\$ 586,273

6. Property and equipment

Property and equipment consists of the following:

	December 31,	
	2015	2015
Furniture and equipment	\$ 3,036,257	\$ 2,959,517
Leasehold improvements	143,984	143,984
	3,180,241	3,103,501
Less accumulated depreciation	2,886,152	2,755,511
	\$ 294,089	\$ 347,990

Depreciation expense for December 31, 2015 and 2014 is \$145,477 and \$96,472, respectively.

WESTCHESTER LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

7. Post-retirement benefits

The Organization provides post-retirement benefits to eligible past and present employees. Eligibility includes those who have retired or will retire at age 55 or thereafter, and who have been employed by the Organization for at least ten years of service prior to retirement. Effective December 15, 2007, the employer subsidy has been capped and frozen at the 2008 annual premiums.

As of December 31, 2015 and 2014, the accumulated post-retirement benefit obligation is calculated using discount rates of 3.79% and 4.63% for the years ended December 31, 2015 and 2014, respectively.

The following table presents the changes in the accumulated benefit obligation.

	December 31,	
	2015	2014
Changes in accumulated post-retirement benefit obligation:		
Accumulated post-retirement benefit obligation at January 1	\$ 3,822,358	\$ 3,032,741
Service cost	71,787	54,480
Interest cost	159,421	141,543
Plan participant contributions	34,809	29,874
Medicare Part D subsidy received	567	949
Actuarial loss	283,957	832,706
Benefits paid	<u>(256,551)</u>	<u>(269,935)</u>
Accumulated post-retirement benefit obligation, December 31	<u>\$ 4,116,348</u>	<u>\$ 3,822,358</u>
Change in plan assets:		
Fair value of plan assets, January 1	\$	\$
Employer contributions	205,232	203,866
Employee contributions	34,809	29,874
Medicare Part B subsidy received	15,943	35,246
Medicare Part D subsidy received	567	949
Benefits paid	<u>(256,551)</u>	<u>(269,935)</u>
Fair value of plan assets, December 31	<u>\$</u>	<u>\$</u>
Funded status:		
Unfunded benefit obligation	<u>\$ 4,116,348</u>	<u>\$ 3,822,358</u>
December 31,		
	2015	2014
Components of net periodic benefit cost:		
Service cost	\$ 71,787	\$ 54,480
Interest cost	159,421	141,543
Amortization of transition obligation		41,323
Amortization of prior service cost	(119,764)	(199,573)
Amortization of actuarial loss	<u>174,590</u>	<u>84,508</u>
	<u>\$ 286,034</u>	<u>\$ 122,281</u>

WESTCHESTER LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

7. Post-retirement benefits (continued)

The following are the actuarial assumptions and effects:

	December 31,	
	2015	2014
Medical trend rate next year	5.00%	5.00%
Ultimate trend rate	5.00%	5.00%
Year ultimate trend rate is achieved	2009	2009
Discount rate used to value end of year accumulated post-retirement benefit obligations	4.09%	3.79%
Discount rate used to value end of year net periodic post-retirement benefit costs	3.79%	4.63%
Effect of a 1% increase in healthcare cost trend rate on:		
a. Interest cost plus service cost	\$ 21,707	\$ 13,780
b. Accumulated post-retirement benefits	283,872	265,810
Effect of a 1% decrease in health:		
a. Interest cost plus service cost	(16,379)	(10,529)
b. Accumulated post-retirements benefits	(114,425)	(202,827)

The Organization's estimate of future benefit payments, net of employee contributions, are as follows:

Year ending December 31:	
2016	\$ 226,636
2017	231,601
2018	227,879
2019	222,958
2020	220,539
2021 - 2025	1,135,519

WESTCHESTER LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

8. Commitments and contingencies

The Organization leases its office facilities under an operating lease expiring on June 30, 2016. The lease provides for minimum annual rental payments as follows:

Year ending December 31:	
2016	\$ <u>119,824</u>

Rent expense, including escalation charges, for 2015 and 2014 was \$270,833 and \$281,888, respectively.

9. Government grants and contracts

The Organization operates under various contracts with government agencies which generally cover a one-year period, subject to annual renewals. The terms of these contracts allow the grantors the right to audit the costs incurred thereunder and adjust contract funding based upon the amount of program income received. Any costs disallowed by the grantor would be absorbed by the Organization and any adjustments by grantors would be recorded when amounts are known, however, it is the opinion of management that disallowances, if any, would be immaterial and adjustments, if any, would not have a material adverse effect on the financial position of the Organization.

10. Letter of credit and line of credit

The Organization has a \$5,000,000 Irrevocable Stand-by Letter of Credit with a financing institution which expires on February 2, 2016. The full amount is available in one withdrawal only. There were no borrowings during the years and no amounts were outstanding at both December 31, 2015 and 2014.

The Organization has a \$500,000 revolving Line of Credit agreement with a financing institution due on demand. The interest rate on the line is 3.75%. There were no borrowings during the years and no amounts were outstanding at both December 31, 2015 and 2014.

WESTCHESTER LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

11. Temporarily restricted net assets and net assets released from restrictions

Temporarily restricted net assets for use in future and for specific programs are available for the following purposes:

	December 31,	
	2015	2014
State Correction Aid	\$ 35,091	\$ 45,363
Coordinated Outreach Services Program	27,684	39,779
County Correctional Facilities Library Aid	27,258	25,113
Maurice J. Freedman Scholarship Fund	6,283	6,283
Gates Staying Connected Training Program	5,094	5,094
Bruni Verges Memorial Fund	4,231	4,231
People and Stories	2,096	2,096
TERC		800
	<u>\$ 107,737</u>	<u>\$ 128,759</u>

Temporarily restricted net assets were released from donor restrictions as follows by incurring expense satisfying the restricted purpose or by passage of time. The net assets released from restriction were as follows:

	December 31,	
	2015	2014
Coordinated Outreach Services Program	\$ 159,689	\$ 188,252
IMLS Creative Aging	171,563	162,023
State Correction Aid	39,665	23,128
BTOP	35,797	33,592
AARP Foundation	25,000	
LIU Certificate	21,750	45,600
Westchester Senior Out Speaking	17,460	
Learning Ambassadors	13,000	26,500
Family Literacy	11,868	
Adult Literacy	7,629	
County Corrections Aid	6,919	6,733
NYSWSOS	1,250	
TERC	799	2,536
March Breakfast		1,948
	<u>\$ 512,389</u>	<u>\$ 490,312</u>

WESTCHESTER LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

12. Board-designated

The fund consists of board-designated special purpose funds. The funds are restricted by the Board of Trustees to cover short falls in cash flows due to delayed payments either from New York State or Westchester County. The funds may also be used for new initiatives and services as determined by the Board of Trustees.

The Board of Trustees is responsible for the long-term investment policies for board-designated funds. Appropriations of such funds require Board approval.

Changes in board-designated net assets were as follows for the year ended December 31:

	2015 Unrestricted	2014 Unrestricted
Board-designated funds, beginning of year	\$ 487,040	\$ 486,657
Interest income	321	383
Board-designated funds, end of year	\$ 487,361	\$ 487,040

The Organization has adopted investment and spending policies for board-restricted net assets that attempt a predictable stream of funding to protect the purchasing power of the fund. Under this policy, as approved by the Board of Trustees, the board-restricted net assets are invested in a manner that is intended to preserve the funds in a risk adverse environment. The Board authorizes the use of these funds to assist the Organization in managing cash flow during the course of the year.

13. Pass-through grants

The Organization is a party to certain agency transactions whereby grants are passed through the Organization to their intended beneficiaries. Pass-through grants were as follows:

	December 31,	
	2015	2014
Central Library Aid	\$ 52,095	\$ 48,750
Local Library Services Aid	241,185	253,263
Westchester Community College	328,602	284,375
Grants in Aid	97,672	66,708
Member Library	100,765	50,250
	\$ 820,319	\$ 703,346

14. Subsequent events

Subsequent events have been evaluated through March xx, 2016, which is the date the financial statements were available to be issued.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To The Board of Directors
Westchester Library System
New York, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Westchester Library System, which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated **March xx**, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Westchester Library System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Westchester Library System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Westchester Library System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Westchester Library System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Saddle Brook, New Jersey

March xx, 2016

DRAFT