



***FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
YEARS ENDED DECEMBER 31, 2016 AND 2015***

DRAFT

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DRAFT

INDEPENDENT AUDITORS' REPORT

To The Board of Trustees of
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, 2016 and 2015, 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, 2016 and 2015, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April XX, 2017 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

April XX, 2017

WESTCHESTER LIBRARY SYSTEM
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 3,691,561	\$ 3,959,925
Grants receivable	280,522	337,244
Accounts and other receivables	72,116	70,252
Prepaid expenses	701,656	451,403
Computer inventory	31,090	31,796
Property and equipment, net	881,548	294,089
Security deposits		<u>35,737</u>
 Total assets	 <u>\$ 5,658,493</u>	 <u>\$ 5,180,446</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$ 470,535	\$ 421,624
Deferred revenue	646,284	651,749
Deferred rent	146,026	
Post-retirement benefits payable	<u>4,023,673</u>	<u>4,116,348</u>
 Total liabilities	 <u>5,286,518</u>	 <u>5,189,721</u>
 Net assets:		
Unrestricted:		
Undesignated	3,711,655	3,511,975
Accumulated post-retirement benefits	(4,023,673)	(4,116,348)
Board designated	<u>487,853</u>	<u>487,361</u>
 Total unrestricted	 175,835	 (117,012)
 Temporarily restricted	 <u>196,140</u>	 <u>107,737</u>
 Total net assets	 <u>371,975</u>	 <u>(9,275)</u>
 Total liabilities and net assets	 <u>\$ 5,658,493</u>	 <u>\$ 5,180,446</u>

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

WESTCHESTER LIBRARY SYSTEM

STATEMENTS OF ACTIVITIES

	Year ended December 31, 2016			Year ended December 31, 2015		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Operating support and revenues:						
Support and revenues:						
Governmental support:						
State grants	\$ 2,223,529	\$ 215,095	\$ 2,438,624	\$ 2,072,095	\$ 206,797	\$ 2,278,892
County grants	1,000,000	17,460	1,017,460	1,000,000	17,460	1,017,460
Federal grants		166,414	166,414		171,563	171,563
Total governmental support	3,223,529	398,969	3,622,498	3,072,095	395,820	3,467,915
Private support:						
Contributions	4,014	234,618	238,632	60,109	95,547	155,656
Special events, net of direct expenses of \$15,733 and \$18,059 for 2016 and 2015, respectively	(1,592)		(1,592)	(1,104)		(1,104)
Total private support	2,422	234,618	237,040	59,005	95,547	154,552
Total governmental and private support	3,225,951	633,587	3,859,538	3,131,100	491,367	3,622,467
Revenues:						
Member technology fees	2,727,764		2,727,764	2,716,797		2,716,797
Interest income	6,854		6,854	3,750		3,750
Realized gain on disposal of equipment				5,669		5,669
Other revenue	42,961		42,961	42,715		42,715
Total revenues	2,777,579		2,777,579	2,768,931		2,768,931
Net assets released from restrictions	545,184	(545,184)		512,389	(512,389)	
Total operating support and revenues	6,548,714	88,403	6,637,117	6,412,420	(21,022)	6,391,398
Operating expenses:						
Program services:						
Technology	2,557,599		2,557,599	2,544,650		2,544,650
Public service	2,612,132		2,612,132	2,623,278		2,623,278
Total program services	5,169,731		5,169,731	5,167,928		5,167,928
Supporting services:						
Management and general Fundraising	1,158,169		1,158,169	985,897		985,897
Fundraising	159,055		159,055	155,897		155,897
Total supporting services	1,317,224		1,317,224	1,141,794		1,141,794
Total operating expenses	6,486,955		6,486,955	6,309,722		6,309,722
Change in net assets before changes in post-retirement benefit obligation	61,759	88,403	150,162	102,698	(21,022)	81,676
Changes in post-retirement benefit obligation other than periodic costs	231,088		231,088	(229,131)		(229,131)
Change in net assets	292,847	88,403	381,250	(126,433)	(21,022)	(147,455)
Net assets, beginning of year	(117,012)	107,737	(9,275)	9,421	128,759	138,180
Net assets, end of year	\$ 175,835	\$ 196,140	\$ 371,975	\$ (117,012)	\$ 107,737	\$ (9,275)

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

WESTCHESTER LIBRARY SYSTEM

STATEMENTS OF CASH FLOWS

	<u>Year ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 381,250	\$ (147,455)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	115,311	145,477
Realized gain on disposal of equipment		(5,669)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Grants receivable	56,722	249,029
Accounts and other receivables	(1,864)	19,133
Prepaid expenses	(250,253)	(88,811)
Computer inventory	706	(28,728)
Security deposits	35,737	
Increase (decrease) in:		
Accounts payable	48,911	(34,089)
Deferred revenue	(5,465)	134,264
Deferred rent	146,026	
Post retirement benefits payable	(92,675)	293,990
Net cash provided by operating activities	<u>434,406</u>	<u>537,141</u>
Cash flows from investing activities:		
Purchases of property and equipment	<u>(702,770)</u>	<u>(85,907)</u>
Net cash used in investing activities	<u>(702,770)</u>	<u>(85,907)</u>
Cash flows from financing activities:		
Payments of capital lease obligation		<u>(7,197)</u>
Net cash used in financing activities		<u>(7,197)</u>
Net increase (decrease) in cash and cash equivalents	(268,364)	444,037
Cash and cash equivalents, beginning of year	<u>3,959,925</u>	<u>3,515,888</u>
Cash and cash equivalents, end of year	<u>\$ 3,691,561</u>	<u>\$ 3,959,925</u>

Supplemental Cash Flow Information

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

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

WESTCHESTER LIBRARY SYSTEM

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31, 2016 and 2015

	Program services					
	Technology		Public service		Total	
	2016	2015	2016	2015	2016	2015
Salaries	\$ 859,281	\$ 799,123	\$ 960,058	\$ 969,910	\$ 1,819,339	\$ 1,769,033
Fringe benefits	315,050	334,231	348,351	367,020	663,401	701,251
Total salaries and related expenses	1,174,331	1,133,354	1,308,409	1,336,930	2,482,740	2,470,284
Professional fees	5,355	4,469	515	1,328	5,870	5,797
Equipment	113,435	136,928	1,450	5,270	114,885	142,198
Books, film, etc.	129,828	156,975	129,828	112,054	259,656	269,029
Periodicals	11,125	11,125	11,125	20,093	22,250	20,093
Rent and utilities	101,525	94,800	140,983	133,700	242,508	228,500
Repairs and maintenance	347,733	347,371	5,383	302	353,116	347,673
Supplies	5,342	3,931	18,217	22,608	23,559	26,539
Telephone and internet	304,434	287,287	292	262	304,726	287,549
Printing and postage	863	3,852	26,461	29,715	27,324	33,567
Database	201,360	219,246	261,129	210,242	462,489	429,488
Professional development	2,899	1,570	52,650	35,392	55,549	36,962
Travel	8,498	8,430	9,113	16,591	17,611	25,021
Memberships	646	655	603	800	1,249	1,455
Contracts processing	38,317	4,475	271,887	323,954	310,204	328,429
Delivery service	615	11,429	370,096	371,033	370,711	371,033
Insurance	8,673				8,673	11,429
Interest						
Miscellaneous	2,600	1,924	3,991	3,004	6,591	4,928
Depreciation	100,020	127,954			100,020	127,954
Total operating expenses	\$ 2,557,599	\$ 2,544,650	\$ 2,612,132	\$ 2,623,278	\$ 5,169,731	\$ 5,167,928

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

WESTCHESTER LIBRARY SYSTEM
STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31, 2016 and 2015

	Management and general		Supporting services		Total		Total program and supporting services	
	2016	2015	2016	2015	2016	2015	2016	2015
Salaries	\$ 417,206	\$ 382,666	\$ 107,179	\$ 104,546	\$ 524,385	\$ 487,212	\$ 2,343,724	\$ 2,256,245
Fringe benefits	510,461	440,084	35,662	37,878	546,123	477,962	1,209,524	1,179,213
Total salaries and related expenses	927,667	822,750	142,841	142,424	1,070,508	965,174	3,553,248	3,435,458
Professional fees	24,835	22,306	520		24,835	22,826	30,705	28,623
Equipment	10,623	390			10,623	390	125,508	142,588
Books, film, etc.		9,843				9,843	259,656	278,872
Periodicals		703				703	22,250	20,796
Rent and utilities	48,242	33,245	8,382	6,700	56,624	39,945	299,132	268,445
Repairs and maintenance	9,573	8,837			9,573	8,837	362,689	356,510
Supplies	8,649	12,587			8,649	12,587	32,208	39,126
Telephone and internet	3,035	1,879	2,712	2,570	5,747	4,449	310,473	291,998
Printing and postage	22,164	14,475	1,771	2,497	23,935	16,972	51,259	50,539
Database							462,489	429,488
Professional development	4,858	8,174		85	4,858	8,259	60,407	45,221
Travel	7,390	4,515	3,054	606	10,444	5,121	28,055	30,142
Memberships	10,449	10,579	295	480	10,744	11,059	11,993	12,514
Contracts processing	30,299	6,393			30,299	6,393	340,503	334,822
Delivery service	19,465				19,465		390,176	371,033
Insurance	10,693	9,008			10,693	9,008	19,366	20,437
Interest		445				445		445
Miscellaneous	4,936	2,245		15	4,936	2,260	11,527	7,188
Depreciation	15,291	17,523			15,291	17,523	115,311	145,477
Total operating expenses	\$ 1,158,169	\$ 985,897	\$ 159,055	\$ 155,897	\$ 1,317,224	\$ 1,141,794	\$ 6,486,955	\$ 6,309,722

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

WESTCHESTER LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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 41 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, 2016 or 2015.

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, 2016 and 2015

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 - 5 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 exemption 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, 2016, 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 2013 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, 2016 and 2015

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, 2016 and 2015, 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 2015 financial statements to conform to the 2016 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 accounts and other receivables are limited due to the number of libraries comprising the Organization's member base and the generally short payment terms. Credit risk with respect to 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, 2016 and 2015, the Organization received approximately 37% and 36%, respectively, of its total support and revenues from grants from the State of New York and approximately 15% and 16%, respectively, from Westchester County Grants.

WESTCHESTER LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

4. Cash

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

	December 31,	
	2016	2015
Interest bearing accounts	\$ 3,691,361	\$ 3,959,725
Non-interest bearing accounts	200	200
	\$ 3,691,561	\$ 3,959,925

5. Grants receivable

Grants receivable are all due within a year of the respective balance sheet date and consist of the following:

	December 31,	
	2016	2015
Institute of Museum and Library Services	\$ 30,522	\$ 85,244
Westchester County	250,000	250,000
Other		2,000
	\$ 280,522	\$ 337,244

6. Property and equipment

Property and equipment consists of the following:

	December 31,	
	2016	2015
Furniture and equipment	\$ 1,314,020	\$ 3,036,257
Leasehold improvements	99,857	143,984
	1,413,877	3,180,241
Less accumulated depreciation	532,329	2,886,152
	\$ 881,548	\$ 294,089

Depreciation expense for the year ended December 31, 2016 and 2015 was \$115,311 and \$145,477, respectively. During the year ended December 31, 2016, \$2,454,120 of fully depreciated furniture and equipment and leasehold improvements were written off.

7. Deferred rent

During the year 2016 the Organization moved to a new facility and entered into an operating lease that has escalations throughout the term of the lease. The Organization received twelve months of free rent in year one. The Organization records rent expense on a straight-line basis and the difference between rent expense and the lower rental amounts actually paid to the landlord is reported as deferred rent in the accompanying statement of financial position. As of December 31, 2016, deferred rent amounted to \$146,026.

WESTCHESTER LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

8. 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.

The accumulated post-retirement benefit obligation is calculated using discount rates of 4.09% and 3.79% for the years ended December 31, 2016 and 2015, respectively.

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

	December 31,	
	2016	2015
Changes in accumulated post-retirement benefit obligation:		
Accumulated post-retirement benefit obligation at January 1	\$ 4,116,348	\$ 3,822,358
Service cost	74,071	71,787
Interest cost	162,353	159,421
Plan participant contributions	17,870	34,809
Medicare Part D subsidy received		567
Actuarial (gain) loss	(94,247)	283,957
Benefits paid	(252,722)	(256,551)
Accumulated post-retirement benefit obligation, December 31	<u>\$ 4,023,673</u>	<u>\$ 4,116,348</u>
Change in plan assets:		
Fair value of plan assets, January 1	\$	\$
Employer contributions	217,293	205,232
Employee contributions	17,870	34,809
Medicare Part B reimbursement paid to retirees	17,559	15,943
Medicare Part D subsidy received		567
Benefits paid	(252,722)	(256,551)
Fair value of plan assets, December 31	<u>\$</u>	<u>\$</u>
Funded status:		
Unfunded benefit obligation	<u>\$ 4,023,673</u>	<u>\$ 4,116,348</u>
	December 31,	
	2016	2015
Components of net periodic benefit cost:		
Service cost	\$ 74,071	\$ 71,787
Interest cost	162,353	159,421
Amortization of transition obligation		
Amortization of prior service cost		(119,764)
Amortization of actuarial loss	136,841	174,590
	<u>\$ 373,265</u>	<u>\$ 286,034</u>

WESTCHESTER LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

8. Post-retirement benefits (continued)

The following are the actuarial assumptions and effects:

	December 31,	
	2016	2015
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	3.92%	4.09%
Discount rate used to value end of year net periodic post-retirement benefit costs	4.09%	3.79%
Effect of a 1% increase in healthcare cost trend rate on:		
a. Interest cost plus service cost	\$ 21,947	\$ 21,707
b. Accumulated post-retirement benefits	276,568	283,872
Effect of a 1% decrease in health:		
a. Interest cost plus service cost	(16,569)	(16,379)
b. Accumulated post-retirements benefits	(217,788)	(114,425)

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

Year ending December 31:	
2017	\$ 229,283
2018	225,806
2019	218,852
2020	215,486
2021	211,648
2022 - 2026	1,117,110

9. Commitments and contingencies

Office lease

The Organization moved to a new facility in July, 2016. The Organization leases its office facilities under an operating lease expiring on June 30, 2027. The lease provides for minimum annual rental payments as follows:

Year ending June 30:	
2017	\$ 144,524
2018	292,626
2019	299,784
2020	306,942
2021	314,100
Thereafter	1,854,605
	\$ 3,212,581

The Organization's rent expense, including escalation charges, for the years ended December 31, 2016 and 2015 was \$299,011 and \$270,833, respectively.

WESTCHESTER LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

9. Commitments and contingencies (continued)

Copier lease

The Organization entered into a four year lease expiring May 31, 2021. The monthly lease payments for the equipment are \$760. Minimum lease payments for the subsequent years are as follows:

Year ending June 30:	
2017	\$ 9,120
2018	9,120
2019	9,120
2020	9,120
2021	3,800
	<hr/>
	\$ 40,280

10. 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.

11. Letter of credit and line of credit

During the years ended December 31, 2016 and 2015, the Organization had an Irrevocable Stand-by Letter of Credit with a financing institution in the amount of \$4,500,000 and \$5,000,000. **The Irrevocable Stand-by Letter of Credit expires on March 23, 2017.** 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, 2016 and 2015.

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 4.25%. There were no borrowings during the years and no amounts were outstanding at both December 31, 2016 and 2015.

WESTCHESTER LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

12. 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,	
	2016	2015
State Correction Aid	\$ 38,533	\$ 35,091
Coordinated Outreach Services Program	14,371	27,684
County Correctional Facilities Library Aid	29,554	27,258
Maurice J. Freedman Scholarship Fund		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
Battle of the Books	1,491	
MiniGrants	21,568	
TASC Connect	5,000	
Patron Stories	10,852	
Community dialogue on criminal justice issues	40,000	
Creative aging programs	23,350	
	<u>\$ 196,140</u>	<u>\$ 107,737</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,	
	2016	2015
Coordinated Outreach Services Program	\$ 167,058	\$ 159,689
IMLS Creative Aging	166,414	171,563
State Correction Aid	27,325	39,665
BTOP	32,720	35,797
AARP Foundation		25,000
LIU Certificate	40,984	21,750
Westchester Senior Out Speaking	17,460	17,460
Learning Ambassadors	7,414	13,000
Family Literacy	12,558	11,868
Adult Literacy	8,073	7,629
County Corrections Aid	7,656	6,919
NYS/WSOS		1,250
TERC		799
Creative aging programs	1,650	
Battle of the Books	1,509	
MiniGrants	23,932	
TASC Connect	10,000	
Patron Stories	14,148	
Maurice J. Freedman Scholarship Fund	6,283	
	<u>\$ 545,184</u>	<u>\$ 512,389</u>

WESTCHESTER LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

13. 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:

	2016 <u>Unrestricted</u>	2015 <u>Unrestricted</u>
Board-designated funds, beginning of year	\$ 487,361	\$ 487,040
Interest income	<u>492</u>	<u>321</u>
Board-designated funds, end of year	<u>\$ 487,853</u>	<u>\$ 487,361</u>

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.

14. 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,	
	<u>2016</u>	<u>2015</u>
Central Library Aid	\$ 66,209	\$ 52,095
Local Library Services Aid	279,542	241,185
Westchester Community College	2,943	328,602
Grants in Aid	179,699	97,672
Member Library	<u>24,636</u>	<u>100,765</u>
	<u>\$ 553,029</u>	<u>\$ 820,319</u>

15. Subsequent events

Subsequent events have been evaluated through April XX, 2017, 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 Trustees of
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, 2016, 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 April XX, 2017.

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

April XX, 2017

DRAFT