



REPORT TO THE FINANCE COMMITTEE

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OCTOBER 2017

October 19, 2017

To the Finance Committee of the Board of Trustees of
Central New York Library Resources Council

We have completed our audit of the financial statements of Central New York Library Resources Council as of and for the year ended June 30, 2017. Based on the results of our audit, we have issued an unmodified opinion on the financial statements of Central New York Library Resources Council as of and for the year ended June 30, 2017.

This report summarizes certain required communications to the Finance Committee with emphasis on significant accounting and auditing matters and the quality of accounting principles used by management, as well as a discussion of the impact of adopting new accounting standards.

We look forward to reviewing this report with you and responding to any issues the Finance Committee wishes to discuss.

This report is intended solely for the information and use of the Finance Committee, management and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Dannible + McKee, LLP

CENTRAL NEW YORK LIBRARY RESOURCES COUNCIL

REPORT TO THE FINANCE COMMITTEE

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CENTRAL NEW YORK LIBRARY RESOURCES COUNCIL

REQUIRED COMMUNICATIONS WITH THE FINANCE COMMITTEE

AUDITOR'S RESPONSIBILITY UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS:

- As communicated in our engagement letter dated August 4, 2017, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly (as prescribed by professional standards), in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.
- Our responsibility is to plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement.
- An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of Central New York Library Resources Council solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.
- We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.
- We are not aware of any documents containing or discussing financial statements or financial results.

PLANNED SCOPE AND TIMING OF THE AUDIT:

- We performed the audit according to the planned scope and timing previously communicated to you through our engagement letter and planning communication letter, both dated August 4, 2017.

- The scope of the audit is a matter of judgment considering such factors as the nature of the entity, the industry in which it operates and the relative size of the entity using a percentage of total revenue or total assets of the entity as a benchmark.

COMPLIANCE WITH ALL ETHICS REQUIREMENTS REGARDING INDEPENDENCE:

- The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.
- We have performed no non-audit, consulting or systems consulting services other than as agreed to in our engagement letter.
- We are not aware of any other areas or relationships that could affect independence.

QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES:

Significant Accounting Policies

- Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Central New York Library Resources Council is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during fiscal 2017. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.
- Improvements to Not-for-Profit Financial Reporting

In August 2016, the Financial Accounting Standards Board (FASB) released Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU will change the way all not-for-profits (NFPs) classify net assets and prepare financial statements. FASB believes the update will improve NFP financial statements and provide more useful information to donors, grantors, creditors, and other financial statement users. The standard is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application is permitted.

The first of a two-phase project, the amendments in FASB ASU 2016-14 are intended to make immediate improvements that address:

- Net asset classification
 - Underwater endowments
 - Board designated net assets
 - Restrictions of gifts of cash or other assets for long-lived assets
 - Information about the availability and liquidity of resources
 - Reporting financial performance measures
 - Expenses classified by function and nature
 - Statement of cash flows
 - Financial reporting measures
- Changes to Accounting for Leases

In February 2016, FASB issued ASU 2016-02, *Leases*, that becomes effective for annual financial statements of nonpublic entities issued for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted. The amendments in FASB ASU 2016-02 redefine the accounting for leases by both lessors and lessees. The standard effectively eliminates the concept of lease classification as capital versus operating currently being used by lessees. Upon adoption of this new standard lessees will recognize a “right-of-use” asset, so defined where a contract exists that conveys the right to use an asset for a period of time in exchange for consideration. Also recorded will be a corresponding liability for the obligation to make lease payments for all leases. For leases previously classified as operating leases, rent expense will be replaced with straight-line basis amortization expense and front-end loaded interest expense. Under certain circumstances, for leases with a maximum possible term (including all extension options) of 12-months or less, a lessee will be permitted to account in a manner consistent with the current requirements for operating leases.

For lessors, accounting for leases will utilize a “receivable and residual asset” approach (previously called the “derecognition” approach). Under this approach, a lessor would derecognize the underlying asset and record a lease receivable and residual asset. The lessor would allocate the carrying value of the underlying asset being leased between the portion related to the lessee’s “right-of-use asset” and the portion retained by the lessor (the residual). The approach allows for a lessor to recognize profit on the leased asset at lease commencement if it is “reasonably assured.”

Significant Accounting Estimates

- Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.
- The most sensitive accounting estimates affecting the financial statements are as follows:
 - Useful lives of furniture and equipment;
 - Allowance for bad debts; and
 - Functional allocation percentages.

During the conduct of our fieldwork, we determined the basis for, and reasonableness of, management's estimates.

Financial Statement Disclosures

- Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting Central New York Library Resources Council's financial statements relate to revenue recognition and expense allocation.

CORRECTED AND UNCORRECTED MISSTATEMENTS (ADJUSTMENTS):

- Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.
- Management has corrected all material misstatements, either individually or in the aggregate, to the financial statements taken as a whole. The following material misstatements detected as a result of the audit procedures were corrected by management:

	<u>Increase (decrease) in change in net assets</u>
Unadjusted change in net assets	\$ 76,348
To adjust retained earnings to actual	440
To reverse accounts receivable and deferred revenue for June 2017 billings related to fiscal 2018 (\$4,030)	-
To record depreciation expense and disposal of computers	<u>(6,068)</u>
Adjusted change in net assets	<u>\$ 70,720</u>

- Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Uncorrected misstatements are summarized as follows:

	<u>Increase (decrease) in change in net assets</u>
To record accrual for credit card charges	<u>\$ (2,678)</u>
To record accrued payroll and payroll taxes (\$3,459), net of reversal of fiscal 2016 unrecorded accrual	<u>\$ 1,547</u>
To record accrual for June 2017 Verizon bill (\$1,160), net of recognition of related grant revenue	<u>\$ (400)</u>
To reclassify expense and revenue to prepaid expenses and deferred revenue for services paid for but not received (\$13,843)	<u>\$ -</u>
To reclassify special purpose grants from Mozilla Foundation and CNY Community Foundation to temporarily restricted net assets upon receipt of funds and back to unrestricted net assets upon completion of the project (\$25,000)	<u>\$ -</u>

We agree with management that these adjustments, individually and in the aggregate, are not material to the financial statements.

AUDITOR'S JUDGMENTS ABOUT THE QUALITY OF ACCOUNTING PRINCIPLES:

- Based on our fieldwork, the accounting principles selected and their utilization appear appropriate in the circumstances.
- Management is not overly influenced by earnings or financial position in selecting or utilizing accounting principles. They demonstrated a willingness and an understanding of the need for consistency and completeness of accounting principles and the related disclosures.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT:

- We obtained full cooperation of management and access to information required to complete the audit. We encountered no significant difficulties in performing and completing our audit.

DISAGREEMENTS WITH MANAGEMENT:

- For the purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We had no such disagreements with management during the course of our audit.

CONSULTATION WITH OTHER ACCOUNTANTS:

- In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Council's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. We are not aware of any consultations with other accountants related to the application of accounting principles that were applicable to years reported on by us.

MATTERS DISCUSSED WITH MANAGEMENT PRIOR TO RETENTION:

- We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Council's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

ERRORS OR FRAUD:

- We noted no material errors or fraud during the audit.

NONCOMPLIANCE WITH LAWS AND REGULATIONS, ILLEGAL ACTS:

- We did not become aware of any significant noncompliance with laws or regulations, or illegal acts.

MANAGEMENT REPRESENTATIONS:

- We have requested certain representations from management that are included in the management representation letter dated October 19, 2017.

SUBSEQUENT EVENTS:

- Management has evaluated subsequent events through October 19, 2017, the date which the financial statements were available for issue.

October 19, 2017

To the Finance Committee of the Board of Trustees of
Central New York Library Resources Council

In planning and performing our audit of the financial statements of Central New York Library Resources Council as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered Central New York Library Resources Council's internal control over financial reporting (internal control) as a basis for designing our auditing 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 the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council'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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

This communication is intended solely for the information and use of the Finance Committee, management and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Dannible + McKee, LLP

CENTRAL NEW YORK LIBRARY RESOURCES COUNCIL

MANAGEMENT SUGGESTION

CONSIDER UTILIZING UNUSED FUNDS FROM OLD GRANTS.

During our testing and analysis of the Council's various grants, we found that there are unused funds remaining on several government grants from each year dating back to a grant period that ended December 31, 2014. While the grant agreements do not require the use of funds within a certain specified time frame and do not require unused grant funds to be paid back to the granting agency, we would recommend that the Council consider making efforts to utilize these funds as soon as possible in order to avoid any potential future funding restrictions were a governmental agency to investigate the timely usage of grant funds.