



North Shore Public Library Financial Condition

Report of Examination

Period Covered:

July 1, 2012 — June 30, 2013

2013M-344



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2014

Dear Library Officials:

A top priority of the Office of the State Comptroller is to help library officials manage library resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support library operations. The Comptroller oversees the fiscal affairs of libraries statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board of Trustees governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard library assets.

Following is a report of our audit of the North Shore Public Library, entitled Financial Condition. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for library officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The North Shore Public Library (Library), created by a special act of the State Legislature in July 1997, is located in the Towns of Riverhead and Brookhaven in Suffolk County. It comprises all of the Shoreham-Wading River Central School District and all of the Rocky Point Union Free School District and serves approximately 28,000 community members.

The Library is governed by an elected five-member Board of Trustees (Board) primarily responsible for the general oversight of the Library's financial affairs and the safeguarding of Library resources. The day-to-day administration of the Library is the responsibility of the Board-appointed Library Director (Director), who is the Library's executive and administrative officer.

The Library consists of one building and employs approximately 60 people. The Library provides services including lending books and providing children's and adult education programs. The Library reported operating expenditures of \$3,563,192 for the fiscal year ending June 30, 2013. These expenditures were funded primarily from real property taxes. The Library also receives grants and collects fines, fees and miscellaneous charges from Library patrons.

Objective

The objective of our audit was to evaluate the Library's financial condition. Our audit addressed the following related question:

- Did the Board and Library officials effectively manage the Library's financial condition and take adequate action to address the reasonableness of fund balance?

Scope and Methodology

We examined the Library's financial condition for the period of July 1, 2012 through June 30, 2013. We extended our scope to the 2006-07 fiscal year to analyze fund balance trends for the general and capital projects funds.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix C of this report.

Comments of Library Officials and Corrective Action

The results of our audit and recommendations have been discussed with Library officials and their comments, which appear in Appendix A, have been considered in preparing this report. Library officials disagreed with certain findings in our report but indicated that they

plan to initiate corrective action. Appendix B includes our comments on issues Library officials raised in their response.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Library Director's office.

Financial Condition

The Board is responsible for making sound financial decisions that are in the best interest of the Library and the taxpayers that fund its operations. In addition, the Board and Library officials must ensure that all money is used for its intended purpose and properly recorded in the appropriate fund. The Board needs complete, accurate and current financial information to effectively monitor the Library's financial operations and to make informed decisions in preparing the annual budget, monitoring revenues and expenditures and modifying the budget during the fiscal year. The Board must take an active role in overseeing Library operations and ensure that it receives the timely and accurate financial information it needs to do so.

The Library retained excessive fund balance in each of the fiscal years 2006-07 through 2011-12 by as much as \$2,435,455 in 2008-09, which was 71 percent of the ensuing year's appropriations. For the fiscal years ended June 30, 2008 through June 30, 2012, Library officials increased unexpended surplus fund balance¹ set aside for specific purposes from \$323,014 to \$1,123,014, yet did not expend any of these funds during that period. Library officials have not communicated these surplus funds to taxpayers. Library officials have also maintained a capital projects fund despite having no current capital projects in place and no planned capital projects in the near future. In addition, using moneys from this fund, officials purchased items that appear to be day-to-day expenditures that should have been paid from the general fund. Finally, Board members did not receive or request adequate financial information from the Director; as a result, the Board is not adequately informed of the Library's fiscal affairs.

Fund Balance

Fund balance is the difference between revenues and expenditures accumulated from prior fiscal years over a given period of time. It provides a cushion against unforeseen events and economic fluctuations and provides cash flow during the year. Additional amounts of fund balance can be set aside for particular purposes or appropriated to reduce taxes. If the Board elects to set aside fund balance for particular purposes, these amounts remain as unexpended

¹ The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted and unrestricted (comprising committed, assigned and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54) and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

surplus funds. The Board has an obligation to the taxpayers to expend these moneys for the designated purposes. Retaining these moneys, rather than expending them, results in excessive fund balance and reduces transparency to the taxpayers regarding what their taxes are actually being used to fund.

The Library can retain a portion of fund balance, referred to as unexpended surplus funds, from one year to the next. However, the amount carried over should not be excessive. It is important that the Board maintain only a reasonable amount of fund balance to ensure the Library's orderly operation and the continued provision of services. When assessing what amount of fund balance is considered reasonable, the Board should consider various factors such as timing of receipts and disbursements, volatility of revenues and expenditures, contingency appropriations and reserves. The Board should adopt a policy that indicates how these factors will be applied in determining the amount of unexpended surplus fund balance to retain. This policy can be used from year-to-year in preparing the budget to ensure that the unexpended surplus fund balance is consistently maintained at an adequate level.

Library officials have chosen to retain excess surplus fund balance rather than return it to taxpayers and have done so with a lack of transparency in the budget process. From fiscal years 2006-07 through 2011-12, the Library maintained a fund balance of between \$2.2 and \$2.4 million per year. Library officials appropriated a total of \$416,500 of this fund balance in three of these years to reduce the tax levy; however, even after appropriating unexpended surplus fund balance, the amount retained was still excessive. In addition, a total of only \$81,960 (about 20 percent) of the appropriated fund balance was used in two of the three fiscal years that fund balance was appropriated; in the third fiscal year, the Library ended with an operating surplus of \$139,114 and, therefore, did not use any of the fund balance it had planned to appropriate.

Additionally, the Board has increased unexpended surplus fund balance² for automation purposes, unemployment insurance benefits,

² The Library's financial statements classified these funds as designated fund balance prior to the 2010-11 fiscal year and as committed fund balance since the 2010-11 fiscal year. Committed funds consist of amounts that are subject to a purpose constraint imposed by a formal action of the government's highest level of decision-making authority before the end of the fiscal year and that require the same level of formal action to remove the constraint. If the governing body has not delegated the authority to assign amounts to be used for specific purposes to another body or official, formal actions by governing boards, such as resolutions and local laws, constitute a similar level of constraint of resources, and these formal actions will result in an assignment of resources, not a commitment of resources. The fund balance classified as committed according to the Library's financial statements are available for any Library purpose at the Board's discretion.

retirement benefits and other post-employment benefits³ year after year. This amount increased from \$323,014 in 2008 to \$1,123,014 in 2012,⁴ yet the Board did not expend any of these funds during that same time period. The Board President explained that the automation fund is a contingency fund available for purchases of digital equipment, computers and software not included in the budget, and the retirement funds are set aside in case the Library does not budget accurately for retirement contributions. He could not explain or provide support for the basis of the amounts set aside for either of these purposes.

The Library’s accountant explained that, although the Library has not paid unemployment benefits and it is unlikely the Library would ever lay off employees, the Library has set aside an amount to cover five unemployed individuals for a period of 26 weeks. The other post-employment benefit funds are set aside to fund future post-employment benefits other than pensions, such as health insurance for retirees. The Board President stated that the Board will continue to increase the amount set aside for this purpose because, although not required, the Board plans to fully fund the Library’s current accrued liability of \$3 million. Since the Board has never expended the funds set aside for these purposes, we question whether the \$1.1 million balance is necessary and in the best interest of taxpayers.

The general fund’s unexpended surplus fund balance, which includes the \$1.1 million set aside for specific purposes, is not reasonable. Unexpended surplus funds reached 71 percent of the next year’s appropriations in fiscal year 2008-09. Although the unexpended surplus funds have declined from their peak at June 30, 2009, the Library has continued to maintain an excessive amount of fund balance, as indicated in Table 1.

	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Unexpended Surplus Funds	\$2,193,457	\$2,356,865	\$2,435,455	\$2,441,702	\$2,276,172	\$2,265,351
Ensuing Year's Budgeted Appropriations	\$3,550,092	\$3,496,421	\$3,439,368	\$3,494,008	\$3,656,432	\$3,401,731
Percentage Retained	62%	67%	71%	70%	62%	67%

Further, for the fiscal year 2012-13, the Library again retained about 66 percent of the ensuing year’s budget. Unexpended surplus fund balance is \$2,296,545 at June 30, 2013.

³ While the Library is not authorized by law to establish reserve funds for any of these purposes, it can set aside unexpended surplus fund balance for these purposes. However, because the Library has never expended any of these funds, we do not believe that setting aside funds for these purposes was appropriate.

⁴ \$88,925 for automation, \$50,000 for unemployment, \$184,089 for retirement and \$800,000 for other post-employment benefits

Lastly, we found that Library officials do not communicate these surplus funds to taxpayers. The budget mailers that are sent to taxpayers to inform them of the Library's budget plans do not include fund balance figures, and the Board does not receive fund balance projections at Board meetings. This lack of transparency limits taxpayers' ability to make informed budget decisions.

The Board and Library officials have not developed policies and procedures to govern the level of unexpended surplus funds. They did not adopt a policy to address maintaining a reasonable amount of fund balance or specify how the Board intends to use fund balance. As a result, the Library has excessive fund balance in the general fund, which has not been communicated to the taxpayers.

Capital Projects Fund

While operating funds are used to pay the day-to-day expenses of running a municipality, capital project funds are used for non-recurring expenditures such as the acquisition or construction of major items. The most common type of capital expenditure occurs when there is a purchase or acquisition of an asset that will benefit the municipality for a long period of probable usefulness and meets minimum item cost and total purchase cost guidelines. Expenses that add to the value or useful life of an item or property also are considered capital expenditures. In contrast, an expense that keeps an asset in an ordinarily efficient operating condition and that does not add to its value or substantially prolong its useful life is generally considered a repair or maintenance expense and, therefore, is an operating expense. The Board and Library officials are responsible for designing internal controls that ensure that capital project funds are safeguarded, properly accounted for and used for the purposes they were intended.

On June 30, 2012, the Library reported a capital projects fund balance of \$266,602. Library officials informed us that they have no current capital projects in place and no plans for any capital projects in the near future. In November 2004, the Board approved a re-allocation of \$225,000 of the general fund's unexpended surplus fund balance to the capital projects fund. Board members stated that there is no specific purpose for the moneys; the fund is simply used for capital improvements and emergencies as needed, such as repairs and maintenance. It is considered a contingency account for future use.

The Board did not adopt an annual budget for the capital projects fund. Instead, when moneys are expended from the capital projects fund, the Board simply receives a capital projects fund warrant for its review and approval. The Board did not authorize a specific capital project and related financial activity; therefore, moneys contained in the capital projects fund should be accounted for and budgeted in the general fund.

From fiscal years 2007-08 through 2011-12, the Library earned \$16,366 in interest in this fund and expended \$80,564 over that same period. For the fiscal year ended June 2012, the Library spent a total of \$44,473 from its capital projects fund. The items purchased using these moneys were not approved as part of the budget process and appear to be day-to-day expenditures that should have been paid with general fund moneys. For example, in August 2011, the Library paid \$1,495 for the purchase of lighting and two hand dryers. Additional expenditures from the capital projects fund for fiscal year 2011 included \$19,625 paid to a boiler company, \$3,917 paid to a plumber, \$3,851 paid to a tile company and \$1,775 paid to an electrician. These expenditures were for general maintenance and repair and, therefore, should have been paid from the general fund.

If the Board's intention is to use the capital projects fund to purchase items that keep an asset in an ordinarily efficient operating condition and to purchase services that are generally considered repair or maintenance expenses, the money should be returned to the general fund. Not reporting activity properly reduces transparency for the taxpayers and does not allow them to fully evaluate the Library's financial condition. Had these moneys been reported in the general fund, they would also increase the Library's unexpended surplus fund balance, which already is excessive. For example, as discussed above, the general fund's unexpended surplus reached 71 percent of the next year's appropriations in fiscal year 2008-09; had the capital projects fund moneys been reported in the general fund during that year, the unexpended surplus funds would have reached 81 percent of the next year's appropriations, with a total fund balance of \$2,779,403.

Monitoring

It is essential that the Board receive regular financial reports from the Director to fulfill its responsibility of monitoring financial operations. Generally, corrective action is easier to initiate when the need is identified early. Interim reports should provide the Board with timely information on such issues as financial position, results of operations, budget status, policy compliance, service or project costs, performance measures and legal compliance matters. Periodic reports should be used as key measures in focusing monitoring activities and conveying information to the appropriate officials and to the public. The Board should compare actual results to plans, policies and directives. The Board's concerns and decisions should be communicated to management so that adjustments and corrections can be made, as needed.

The Board's responsibility for the Library's financial management includes monitoring and evaluating financial condition. Board meetings are held once each month. A few days before each Board meeting, the Director sends each Board member an agenda for the

upcoming meeting; a payable distribution report showing the date, account code, account code descriptions and amounts paid from each account; a check distribution report which includes the date, check number, payee, account paid from and amounts paid; and the typed minutes from the previous meeting for their approval. The Board does not, however, receive any reports for cash flow projections, fund balance projections or a comparison of actual revenue and expenditures to budget amounts.

Cash Flow Projections — One of the basic tools used to effectively manage cash and investments is a cash flow forecast. A cash flow forecast provides an estimate of the amount of cash that will be available for investment during the fiscal year and on a month-to-month basis. Cash flow projections are an effective tool for ensuring that sufficient cash is available when needed for routine operations. Cash flow forecasts should be updated regularly to reflect actual results. The cash flow forecast should also be updated for any unanticipated events that affect the timing and amount of receipts and disbursements.

Cash flow projections are not performed at the Library. The Director informed us that every month she and the Senior Account Clerk meet to discuss cash on hand by reviewing bank balances and tax moneys that have been received. She stated that the Library never has a shortage of cash because it has money in a certificate of deposit bank account. She also stated that she and the Senior Account Clerk review and update a projection spreadsheet on a monthly basis. When we asked to review the most recent projection, the Director provided us with a budget to actual report which included the unexpended balance of appropriations and the month-end bank balances. However, there was no cash flow projection or analysis included with these documents. Further, the Director told us that the Board does not receive or review this spreadsheet.

Fund Balance Projections — Another important fiscal monitoring tool is fund balance projections. At budget time, it can be challenging for local governments to calculate year-end fund balance months in advance so that fund balance can be considered as a possible financing source for the ensuing year's annual budget. The key to using fund balance as a funding source is the proper estimation of its value. Library officials should calculate revised projections each month until the next year's budget is adopted.

Library officials do not perform fund balance projections. Instead, Library officials annually discuss year-end fund balance with the external auditors after they complete their annual audit, which is after the budget is adopted. Library officials informed us that year-end

fund balance is discussed at a public meeting; however, we found no evidence of this in the Board minutes. Further, there is no Board action stating what the Board's intentions are regarding fund balance, and there is no Board authorization for the fund balance appropriated to help fund the subsequent year's budget.

Budget Status Reports — Budget status reports provide the Board with information about year-to-date revenues and expenditures as compared to budget estimates. At a minimum, these reports should identify unfavorable variances that require timely budget amendments to maintain control over spending and ensure compliance with applicable laws. In meeting its oversight responsibilities, the Board should review budgetary status reports, ask questions about revenues and expenditures not meeting budgetary expectations and ensure that corrective action or budget amendments are implemented before financial condition is negatively affected, consistent with the scope of its authority.

Library officials do not discuss budget status reports with the Board on a regular basis. Other than at the Library's yearly meeting with the external auditors, Library officials only discuss budget status reports with the Board if a budget line was grossly over- or under-budgeted. Instead, the Board makes yearly motions for transfers based on external auditor recommendations.

The Board has not developed a mechanism to adequately review or address the Library's financial condition, and did not receive or request sufficient financial information from the Director. As a result, Board members are not properly informed of the Library's fiscal affairs. The Board is unable to adequately monitor and manage Library operations as it is lacking timely and accurate monthly financial reports. This also increases the risk that errors and irregularities may occur and go undetected and uncorrected.

Recommendations

1. The Board should develop a policy that addresses the maintenance of fund balance and how the Board expects to use it.
2. The Board should discontinue adopting budgets that include setting aside fund balance and appropriating fund balance that will not be used.
3. The Board should develop a plan to use the surplus fund balance in a manner that benefits the taxpayers. Such uses could include but are not limited to:
 - Financing one-time expenditures and
 - Reducing property taxes.

4. The Board should provide appropriate transparency through the budget process with public disclosure and provide the total fund balance on the budget mailers sent to taxpayers during the budget process.
5. Library officials should return the capital projects fund residual cash balance to the general fund.
6. The Board should monitor financial activities by requiring and reviewing detailed monthly financial reports that contain sufficient and appropriate information to enable timely, informed decisions. These reports should include cash balances, all cash receipts and disbursements made during the month, a comparison of actual revenue and expenditures to budget amounts and a fund balance projection.

APPENDIX A

RESPONSE FROM LIBRARY OFFICIALS

The Library officials' response to this audit can be found on the following pages.

Library officials reference several attachments as part of their response. As their response contained sufficient detail to explain their position, we did not include the attachments in the report.



North Shore Public Library

Library Trustees:

William Schiavo, President
Terry Cipriani, Vice-President
Helen Gonatas, Secretary
Richard Gibney, Trustee
Steven Losquadro, Trustee

Library Director:

Laura Hawrey

March 10, 2014

[REDACTED]
Division of Local Government and School Accountability
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, NY 11788-5533

Re: North Shore Public Library/Financial Condition,
Report of Examination 2013M-344

Dear [REDACTED]:

Please consider this to be the North Shore Public Library's "Reply" submitted in response to the above-captioned "Report of Examination" forwarded to the Library from the Comptroller's Office.

Initially, the Library expresses its appreciation for the contributions of the representatives of the Office of the State Comptroller in their efforts to enhance the financial condition of the Library.

The Library's Board and administrators found the input of the Comptroller's representatives to be of assistance on the matter of the review of Library practices, protocols and procedures. Many items pertaining to the fiscal practices of the Library above and beyond those reviewed within the terms of the audit report assisted the Library in assuring "best practices and compliance" with pertinent statutes and regulations. In conjunction with the Comptroller's reviews and recommendations set forth within its "Report of Examination" it is helpful to also consider the State Comptroller's memorandum "*GASB 45: Reporting the True Cost of Other Post-Employment Benefits*" (attached).

The Division of Local Government and School Accountability advises in the preamble/summary of the memorandum of its direction to local governments that under the terms of the then newly established "Government Accounting Standards Board" guidelines (GASB 45) that "the cost of retiree benefits are becoming increasingly

burdensome for state and local governments as a result of the growth and the number of retirees coupled with growth in healthcare costs enjoyed by such retirees”.

Clearly, as echoed within the Comptroller’s audit review the newly issued standards possess as one of their principles a dictate to increase transparency as to the true long-term cost of providing post-employment retiree benefits; GASB 45 focuses increased attention on non-pension retiree benefits and the “need to intelligently manage these costs in the future”.

The Comptroller advises in a memo providing guidance to local governments on the matter of the payment of post-retirement benefits that “government should develop plans to address these costs which can be managed through a combination of cost containment, cost sharing and *funding set asides*” (emphasis supplied).

The Comptroller’s memo further advises that the best manner of proceeding for local governments is to address the costs and to move quickly in quantifying OPEB liabilities and to move deliberately toward developing options to manage and fund these costs.

It is noted by the Comptroller that “local government which sets aside OPEB funds can substantially cut its long-terms costs.” Indeed, a legislative proposal reported by the Comptroller sought in the 2008 state legislative session an authorization for the creation of OBEP trusts for New York State and its local governments.

The North Shore Public Library believes and asserts that its set-aside funding to meet the future burdens reflected within GASB 45 represents a foresight and responsibility which warrants a respect and approval; indeed, it is noted on a national basis that states’ and municipalities’ failures to so set-aside funds to meet future retiree benefits have led to municipal bankruptcies or fiscal straits which have placed states and municipalities on the brink of bankruptcy. A failure to reserve funds to meet future burdens so as not to further drain the resources of annual real property tax resources is negligent. In fact it has been determined via an actuarial report that over \$3,000,000 will be necessary to sustain the OBEP costs facing the Library; yet, there, currently, only exists some \$1,000,000 (with that figure diminishing) to provide for the necessary funding.

See
Note 1
Page 20

Indeed, Governor Cuomo’s tax-cap initiative has set the stage for municipalities having to be in a position to set-aside funds to meet what will be clear future financial burdens relating to retiree benefits; thus, it being even more critical for required future pay-outs to be considered not when such funds will be necessarily expended; but, rather, well in advance of those burdens afflicting a government’s budget. The North Shore Public Library has established a mechanism by which these future burdens which will be facing the tax base can be, at least to a degree, secured in these current times. The audit review finds these set-asides to be unreasonable; the Library appreciates that opinion; however, the Library upon the advice and counsel of its accounting firm finds its planning to be appropriate and realistic in assuring that future payouts can be made based upon a financially sound planning process and not one impaired by a failure to so establish a future funding source for obligations which will be facing the Library and its taxpayers.

The Library is not aware of any statutory or regulatory formula which constrains the size of a school district public library's fund balance (other than the subjective standard of "reasonableness"); as school district public libraries do not possess the wherewithal to borrow funds on their own accord; and as the North Shore Public Library does not receive its first tax revenue payment until January (some six months after its fiscal/budget year has commenced) it is also contended that rather than force a borrowing by the Library on behalf of the School District and thus paying interest on a TAN it is not unreasonable for the Library to possess a fund balance at the current level.

The Comptroller advises that the Library's taxpaying constituency should be advised of the level of surplus funds retained and the basis for it being maintained. Although the Library is not aware of any law or regulation requiring such "disclosure", the Comptroller's recommendation is viewed approvingly. Accordingly, it is proposed that the Library's website contain information pertaining to the surplus funds existent and the bases for such being retained. The audit report's reference to providing such information on the budget mailing, respectfully, is found not to be reasonable considering the size and scope of the budget notification vehicle (further, it is believed that the budget mailing should focus on the budget and not upon the matter of a fund balance possessed by the Library). By way of a full and transparent explanation of the fund balance on the District's website it is believed that there will be a basis upon which inquiring taxpayers can be fully informed on the matter of this feature of the Library's fiscal condition.

See
Note 2
Page 20

The audit review takes issue with the Library's retaining of set asides for unemployment benefits. However, despite the unlikelihood of mass layoffs by the Library, it is nevertheless the fact that the Unemployment Insurance Division of the New York State Department of Labor often finds benefits' eligibility even to those employees who resign since a termination/layoff from a subsequent job within a certain number of months inures back to Library. Indeed, it is the experience of the Library's counsel that often the Labor Dept.'s administrative law judges find for benefits' eligibility when a resignee offers some claim of the "compelling need" for that resignation. Moreover, the Library is "self insured" as to unemployment insurance benefits: in lieu of quarterly insurance premiums being paid the Library assumes the risk of pay-outs to eligible former employees. Thus, the Library does, reasonably, possess the need to budget for the potential costs of unemployment insurance liabilities. However, it will review the level of the set-aside to determine if it is necessary to retain that amount.

The audit review contends that there were certain expenditures made from a capital fund that should have been more appropriately paid from the general fund. However, the payments were, in fact, for capital items and were, accordingly, paid from a capital fund in order to avoid the establishing of budgetary lines attributed to capital purchases. Indeed, the Library is currently in the process of negotiating a lease for a shopping center premises in order to provide an underserved section of its community with Library services; such will necessitate capital purchases to furnish and equip the prospective leased premises. It is estimated that some \$200,000 - \$300,000 will be necessarily expended to provide for a functioning facility. Indeed, the Capital Reserve Fund has

See
Note 3
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shrunk from from holding over \$350,000 in the year 2005 to some \$200,000 currently (see attached chart). In fact the Fund Balance itself, considering needs, has significantly varied over the past decade; as will be noted within the attached chart it has fluctuated from over \$2.5 million to under \$500,000; during the period of the audit review it was at its height, but in the year previous and the year after it was some \$2 million less!

The audit review's recommendation for a more formalized review by the Board of the Library's fiscal status (including cash flow, fund balance projections, etc.) is well-taken and is intended to be enacted. In actuality, the Board is continuously apprised of the Library's fiscal status; however, the creating of written reports for submission to the Board at each monthly Board meeting will serve to formalize and assure that a "record" is established on the matter of the Library's reporting of its on-going fiscal status to its Trustees and the public.

See
Note 4
Page 20

In summary, vis-à-vis the stated recommendations within the Report, the Library responds as follows:

1. The recommended fund balance policy has been drafted, reviewed and adopted (August 2013) (see attached) by the Board of Trustees.

It is believed that the fund balance policy statement regarding the establishing of a "reasonable fund balance" comports with the directions promulgated by the State Comptroller over the years:

The Library's primary objectives by way of establishing a reasonable fund balance are to maintain a prudent level of financial resources to protect against reducing service levels; stabilizing tax rates and fees; avoid borrowings to meet cash flow needs due to revenue short-falls or unanticipated one-time expenditures; providing for the management of the timing of receipts and disbursements; providing for contingency appropriations that may be necessary to avoid budgetary dislocations, extraordinary assessments or other necessary potential expenditures that may tend to impair the fiscal integrity of the Library

Moreover, the balance of the policy including its section entitled "Fund & Minimal Balance Policy" (GASB 45) likewise, establishes a reasonable planned rationale pertaining to a "fiscally responsible, unrestricted, unreserved fund balance" for short and long-term "financial stabilization". The policy's sub-part providing for the implementation of the policy, likewise, establishes a reasonable series of commitments pertaining to expenditure restrictions pertaining to the restricted fund balance; the committed fund balance; the assigned fund balance and the unassigned fund balance.

A review of the budget amounts supporting the Library raised by taxes reveals the stability able to be effected by the utilization of a realistic fund balance: to wit, the budget

amount raised by taxation in the 2006-07 fiscal year was \$3,580,612; the 2013-14 budget amount needed to be raised by taxation is \$3,462,967; the interim years reflect decreases from \$3,384,935 (2007-08) to \$3,329,332 in the 2011-12 year. The Library has been able to effect one of the more stable tax rate impacts upon its taxpayers that exists within any municipality in the County of Suffolk.

In fact, the unassigned/unreserved component of the fund balance has decreased by almost 50% during the period 2008 (\$2,033,851) to 2012 (\$1,293,837); such reflecting a considered treatment of the amounts maintained within the unassigned portion of the total fund balance.

See
Note 5
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Indeed, as noted within the most recent financial report dated June 30, 2013 (p. 20):

As of June 30, 2013, the actuarial accrued liability for benefits based upon the evaluation date of July 1, 2012 was \$3,058,786 all of which was unfunded. The covered payrolls (annual payroll of active employees covered by the plan) was \$1,279,012 and the ratio of the unfunded actuarial accrued liability for the covered payroll was 239.2%.

Accordingly, the setting aside of reserves for OPEB future costs should not be considered as unreasonable or excessive; rather, under the constant supervision of the Board of Trustees and its accountant should be considered as reflective of an accountable and justifiable amount warranted within the context of prudent financial planning. The Library is considerate of the taxpayers' burden; as noted within the aforesaid financial report:

See
Note 1
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The Library's net position decreased by \$243,603 this year. In an effort to keep the tax burden as low as possible, the Library planned on using some of its accumulated surplus to meet its current year expenditures. Also contributing to the decrease was the recognition of expenses related to post-employment insurance costs which is required the by Government Accounting Standards Board Statement No. 45.

Indeed, the Comptroller's audit report advises that the "Library Board should consider various factors such as timing of receipts and disbursements; volatility of revenues and expenditures; contingency appropriations and reserves (in establishing its reserves). The Board should adopt a policy that indicates how these factors will be applied in determining the amount of unexpended surplus balance to retain. This policy can be used from year-to-year in preparing the budget to insured that the unexpended surplus fund balance is consistently maintained at an adequate level." In fact, the North Shore Public Library has done just that through its adoption of the above-cited "Fund Balance Policy/Fund and Minimal Balance Policy (GASB 45)." A factor in determining the

reasonableness of a fund balance must be the stabilization of the tax rate that has been able to be implemented; the Library has provided for that stabilization over many years.

2. The Board will on the matter of adopting budgets that include the setting-aside of fund balance appropriations be guided by its thorough and accountable Policy (as aforementioned) and the advices contained in the Comptroller's audit review.

3. Likewise, as to the planning to appropriate surplus fund balance the Library will be guided by the Policy adopted in August of 2013 as well as the recommendations of the Comptroller in its "Report of Recommendation". Although the Report references the commitment of the Board President to enhance the set-asides in order to accommodate the OBEP obligations facing the Library, the Comptroller is assured that adding to reserves to attend to the future debt obligations will only be effected when reasonable considering all the factors that the Library's policy and the Comptroller's memos reference as being necessarily considered when taking such action.

4. Transparency on the matter of the Library's fund balance will be provided through a website provision which is to be updated as necessary as well as the monthly reports to the Trustees which will be made available to the public under the Open Meetings Law and the Freedom of Information Law.

5. The return of capital projects fund cash balances to the general fund will be effected as warranted and dependent upon any up-coming capital project payments.

6. The Board will be apprised, monthly, on all matters pertinent to the fiscal condition of the Library including all those aspects of such condition as referenced within the Comptroller's audit review.

It is the Library's firm belief that the above response to the Report will indicate the commitment of the Library to meet the standard of reasonableness in its retaining of surplus funds within its overall planning for maintaining sound fiscal underpinnings supporting a library operation that is accountable to the taxpayers and itself.

Respectfully submitted,

William A. Schiavo
President, Board of Trustees
North Shore Public Library

See
Note 6
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APPENDIX B

OSC COMMENTS ON THE LIBRARY'S RESPONSE

Note 1

GASB does not require that a government's future OPEB liabilities be funded on a current basis. In fact, according to GASB, the most common misconception about Statement 45 is that it requires the funding of future OPEB liabilities. Instead, it establishes standards for accounting and reporting to more accurately reflect the financial effects of OPEB; how the benefits are funded is a management decision that must comply with statutory authority. There is currently no State statute that expressly authorizes a local government in New York to create a trust for OPEB purposes.

Note 2

Fund balance is a large part of the budget process. Irrespective of whether there is any legal requirement for the Library to disclose its level of fund balance in the budget process, we believe that such disclosure provides important transparency to the public of the Library's financial resources during the budget process. Taxpayers should be made aware of all available funds in order to enable informed budget decisions.

Note 3

As identified in the audit report, the payments made from the capital projects fund were not approved as part of the budget process and were for general maintenance and repairs. Therefore, they should have been paid from the general fund.

Note 4

We were not provided with and found no evidence of the Board receiving any fiscal status updates.

Note 5

As identified in Table 1 in the report, the unexpended surplus funds at June 30, 2008 were \$2,356,865 and at June 30, 2012 were \$2,265,351, a difference of \$91,514, or a decrease of about 4 percent.

Note 6

During our fieldwork, the Board did not authorize any capital projects; therefore, there would be no "upcoming capital project payments."

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine if the Board and Library officials effectively managed the Library's financial condition and took adequate action to address the reasonableness of fund balance. To accomplish this, we performed an initial assessment of the internal operations so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash management, cash receipts, cash disbursements, claims processing, purchasing, payroll and personal services, asset management and information technology.

During the initial assessment, we interviewed appropriate Library officials to obtain an understanding of the organization and the accounting system, performed limited tests of transactions and reviewed pertinent documents, such as Library policy and procedure manuals, Board minutes and financial records and reports. In addition, we reviewed the Library's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected financial condition for further audit testing. To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We performed an initial assessment of internal controls in place to determine the overall effectiveness of the Library's financial records. This included interviewing appropriate Library officials to gain an understanding of the procedures used to account for the Library's financial operations.
- We examined the Library's financial condition for the period July 1, 2006 through June 30, 2013.
- We reviewed Board minutes, Library policies, adopted budgets, budget mailers, comparative statements, capital fund disbursement reports, audited financial statements, income statements, vendor invoices and related disbursement check stubs for general fund and capital fund transactions.
- We compared budgeted amounts to actual results for fund balance appropriated for fiscal years ending June 30, 2007 through June 30, 2013. We also interviewed Library officials about the unexpended surplus fund balance and committed funds.
- We selected Library claims based on vendor name to determine if the claims appeared to be for legitimate capital fund purposes and if the Board approved the expenditures.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX D

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