

COMBINED FINANCIAL STATEMENTS, OTHER FINANCIAL INFORMATION,
AUDIT REPORTS AND SCHEDULE RELATED TO OFFICE OF MANAGEMENT
AND BUDGET CIRCULAR A-133

Brooklyn Public Library and Brooklyn Public Library Foundation

Year ended June 30, 2003

with summarized financial information for the year ended June 30, 2002
with Report of Independent Auditors

Brooklyn Public Library
and Brooklyn Public Library Foundation

Combined Financial Statements,
Other Financial Information, Audit Reports and
Schedule Related to Office of Management
and Budget Circular A-133

Year ended June 30, 2003
with summarized financial information for the year ended June 30, 2002

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Report of Independent Auditors

Board of Trustees
Brooklyn Public Library

We have audited the accompanying combined statement of financial position of the Brooklyn Public Library and Brooklyn Public Library Foundation (collectively, the “Library”) as of June 30, 2003, and the related combined statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Library’s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Library’s 2002 combined financial statements and, in our report dated September 27, 2002, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of the Brooklyn Public Library and Brooklyn Public Library Foundation at June 30, 2003, and the combined changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report as of and for the year ended June 30, 2003 on our consideration of the Library’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the financial statements of the Library taken as a whole. The accompanying 2003 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 2003 financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the 2003 financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2003 financial statements taken as a whole.

Ernst + Young LLP

September 24, 2003

Brooklyn Public Library
and Brooklyn Public Library Foundation

Combined Statement of Financial Position

	June 30	
	2003	2002
Assets		
Cash and cash equivalents	\$ 645,991	\$ 1,716,204
Receivables, net	6,913,128	5,843,100
Investments	20,143,176	18,825,684
Property and equipment, net	3,135,929	2,888,413
Other assets	190,196	174,787
Collections	—	—
Total assets	\$ 31,028,420	\$ 29,448,188
Liabilities and net assets		
Accounts payable, accrued expenses and advances	\$ 3,803,509	\$ 3,650,032
Accrued wages and related liabilities	6,520,981	6,869,644
Total liabilities	10,324,490	10,519,676
Commitments and contingencies		
Net assets:		
Unrestricted:		
Corporate	12,782,668	10,004,461
Board-designated for use in next fiscal year	1,574,277	3,521,000
Board-designated	1,232,210	1,232,210
Total unrestricted	15,589,155	14,757,671
Temporarily restricted	3,506,588	2,637,654
Permanently restricted	1,608,187	1,533,187
Total net assets	20,703,930	18,928,512
Total liabilities and net assets	\$ 31,028,420	\$ 29,448,188

See accompanying notes.

Brooklyn Public Library
and Brooklyn Public Library Foundation

Combined Statement of Activities

Year ended June 30, 2003

with summarized financial information for the year ended June 30, 2002

	2003			Total	2002 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Contributions, support, revenue and reclassifications					
City of New York	\$ 62,863,046	\$ —	\$ —	\$ 62,863,046	\$ 69,927,369
State of New York	7,623,568	—	—	7,623,568	7,448,577
Federal government	405,113	—	—	405,113	421,272
Contributions from individuals, corporations and foundations	571,980	3,329,497	75,000	3,976,477	2,760,332
Purchase discount reimbursement contributions	1,686,497	—	—	1,686,497	774,506
Contributed facilities	36,476,089	—	—	36,476,089	23,670,534
Net investment income, including change in net unrealized losses on investments	284,930	—	—	284,930	10,233
Special events:					
Special events revenue	\$ 310,555				
Less direct benefit to donor costs	(144,222)				
Net special events income	166,333	—	—	166,333	106,823
Fines, royalties and other revenue	2,726,079	—	—	2,726,079	2,712,173
Total contributions, support and revenue	112,803,635	3,329,497	75,000	116,208,132	107,831,819
Net assets released from restrictions and reclassifications	2,460,563	(2,460,563)	—	—	—
Total contributions, support, revenue and reclassifications	115,264,198	868,934	75,000	116,208,132	107,831,819
Expenses					
Library program services:					
Salaries and other expenses	100,677,704	—	—	100,677,704	86,806,922
Books and other library materials	7,556,711	—	—	7,556,711	8,050,520
Depreciation and amortization	303,891	—	—	303,891	433,472
Total library program services	108,538,306	—	—	108,538,306	95,290,914
Supporting services:					
Management and general	5,174,099	—	—	5,174,099	3,743,499
Fundraising	720,309	—	—	720,309	699,137
Total supporting services	5,894,408	—	—	5,894,408	4,442,636
Total expenses	114,432,714	—	—	114,432,714	99,733,550
Change in net assets	831,484	868,934	75,000	1,775,418	8,098,269
Net assets, beginning of year	14,757,671	2,637,654	1,533,187	18,928,512	10,830,243
Net assets, end of year	\$ 15,589,155	\$ 3,506,588	\$ 1,608,187	\$ 20,703,930	\$ 18,928,512

See accompanying notes.

Brooklyn Public Library
and Brooklyn Public Library Foundation

Combined Statement of Cash Flows

	Year ended June 30	
	2003	2002
Operating activities		
Change in net assets	\$ 1,775,418	\$ 8,098,269
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	303,891	433,472
Unrealized (gains) losses on investments	(163,542)	168,316
Net realized loss on sales of investments	269,776	443,339
Permanently restricted contributions	(75,000)	(25,000)
Bad debt expense	668,905	—
Deferred rent expense	82,000	—
Changes in operating assets and liabilities:		
Receivables	(1,738,933)	(561,537)
Other assets	(15,409)	(79,135)
Accounts payable, accrued expenses and advances	71,477	(109,309)
Accrued wages and related liabilities	(348,663)	(579,185)
Net cash provided by operating activities	829,920	7,789,230
Investing activities		
Proceeds from sales of investments	59,866,815	92,138,301
Purchases of investments	(61,290,541)	(99,315,147)
Property and equipment purchases	(551,407)	(269,665)
Net cash used in investing activities	(1,975,133)	(7,446,511)
Financing activities		
Permanently restricted contributions	75,000	25,000
Repayments on note payable	—	(562,172)
Net cash provided by (used in) financing activities	75,000	(537,172)
Net decrease in cash and cash equivalents	(1,070,213)	(194,453)
Cash and cash equivalents, beginning of year	1,716,204	1,910,657
Cash and cash equivalents, end of year	\$ 645,991	\$ 1,716,204
Supplemental disclosure of cash flow information		
Interest paid	\$ —	\$ 21,000

See accompanying notes.

Brooklyn Public Library
and Brooklyn Public Library Foundation

Notes to Combined Financial Statements

June 30, 2003

1. Organization and Significant Accounting Policies

Organization

Brooklyn Public Library (the “Library”) was founded in 1897 and serves more than 2.4 million Brooklynites with a Central Library, a Business Library and 58 branch libraries. The Library is a private, not-for-profit corporation that receives significant support through governmental appropriations (primarily New York City (the “City”) and New York State (the “State”)) in addition to support from other sources. The Library’s continuing operations are dependent upon such government support.

The combined financial statements of the Library include all of the Library’s accounts, as well as the accounts of its related organization, the Brooklyn Public Library Foundation (the “Foundation”). The Foundation, which operates under the direction of a separate Board of Trustees (the “Board”), exists solely to raise funds for the Library’s programs.

The Library and the Foundation are Section 501(c)(3) organizations exempt from Federal income taxes under Section 501(a) of the U.S. Internal Revenue Code (the “Code”) and have been classified as organizations that are not private foundations as defined in Sections 509(a)(1) and (3) of the Code. In addition, the State and the City have classified the Library and the Foundation as nonprofit in character and, as such, they are exempt from payment of income taxes to the State and the City. The Library and the Foundation qualify for the maximum charitable contribution deduction by donors.

In the accompanying combined financial statements, references to the Library include the Library and the Foundation.

Fund Accounting and Net Asset Classifications

To ensure observance of limitations and restrictions placed on the use of resources available to the Library, the Library’s accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying

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Notes to Combined Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

combined financial statements, funds that have similar characteristics have been combined into net asset classes. Accordingly, all financial transactions have been recorded and reported by net asset class, as follows:

- Unrestricted net assets represent the portion of expendable funds that is available for support of the Library's operations, at the discretion of the Library's Board. At June 30, 2003, the Board has designated approximately \$1.6 million and \$1.2 million of unrestricted net assets for next fiscal year's operations and library material acquisitions, respectively.
- Temporarily restricted net assets represent the portion of expendable funds that is restricted by the donor or grantor for particular purposes or for use in specific time periods.
- Permanently restricted net assets represent funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and that only the income be used. The income is not designated for specific programs or time periods and is expendable for unrestricted purposes.

Revenue Recognition

The Library records earned revenues on the accrual basis; investment income is recognized in accordance with policies enumerated below. In addition, the Library records as revenue the following types of contributions, when they are received unconditionally, at their fair value: cash, promises to give and contributed facilities. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Contributions are recorded net of estimated uncollectible amounts.

Temporarily Restricted Contributions

The Library records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of activities as net assets released from restrictions. It is the Library's policy to record temporarily restricted contributions received and expended in the same accounting period in the unrestricted net asset class.

Brooklyn Public Library
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Notes to Combined Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Library considers all unrestricted, highly liquid financial instruments purchased with a maturity of three months or less, other than those held in the Library's investment portfolio, to be cash equivalents. At June 30, 2003, substantially all cash and cash equivalents were on deposit with one financial institution.

Investments and Investment Income

The Library invests in marketable equity and debt securities and mutual funds that are carried at fair (quoted market) value (see Note 3). Investment income, including realized and unrealized gains and losses, is recorded in the unrestricted net asset class, unless there are restrictions that have been imposed by donors or grantors.

Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation is provided over the estimated useful lives of the respective assets on the straight-line basis. Amortization of leasehold improvements is provided on the straight-line basis over the estimated useful lives of the improvements or the remaining life of the lease, whichever is shorter. Property and equipment purchased with funds provided to the Library by City and State appropriations are not capitalized, as the City and the State retain an ultimate ownership interest in such items and their ultimate disposition would benefit the City and State. Funds received and expended for such purchases (approximately \$2.0 million in fiscal 2003) are shown as revenue and expenses, respectively, in the accompanying combined statement of activities. Amounts paid directly by the City and the State to third-party vendors for capital improvements for City- and State-owned properties occupied by the Library are not recorded by the Library. In fiscal 2003, such amounts were approximately \$8.5 million.

Collections

The Library has collections of noncirculating library materials, including books, periodicals and other items. These collections are maintained by the Library under curatorial care and held for research, education and public exhibition in furtherance of public service. Proceeds from the sales of collections are used to acquire other items for collections. The cost of

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Notes to Combined Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

collections purchased by the Library is charged to expense in the year purchased and donated collection items are not recorded. The value of the Library's collections, for financial statement purposes, cannot be determined. The costs of circulating books and other library materials are not recorded as collections, but are charged as a Library services expense in the year purchased because such items are exhaustible over a short period of time.

Contributed Facilities

The Library occupies the majority of its branch libraries, as well as the Central Library, under rent-free arrangements with the City. The estimated rental value of those premises is reported as contributed facilities, offset by equal charges to the appropriate expense category. The Library estimates the rental value based upon market rental rates for properties in the same locations as branch libraries and discounts such rates for the limited use nature of the branch library facilities. The City also pays the utility costs (heat, light and power) of properties occupied by the Library. The revenues to fund these expenditures are also recorded by the Library as contributed facilities, offset by equal charges to the appropriate expense category. The following amounts have been recorded as contributed facilities and expenses for the year ended June 30, 2003:

Estimated rental value	\$ 34,498,800
Heat, light and power	<u>1,977,289</u>
	<u><u>\$ 36,476,089</u></u>

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying combined statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Volunteers

A number of volunteers, including the members of the Board, have made significant contributions of time to the Library's policy-making, program and support functions. The value of this contributed time does not meet the criteria for recognition of contributed services under accounting principles generally accepted in the United States and, accordingly, is not reflected in the accompanying combined financial statements.

Brooklyn Public Library
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Notes to Combined Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 revenues and expenses during the reporting period. Actual results could differ from those estimates. The Library's significant area of estimation relates to the rental values used to record contributed facilities from the City.

2002 Summarized Financial Information

The accompanying combined financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Library's combined financial statements for the year ended June 30, 2002, from which the summarized financial information was derived.

2. Receivables

At June 30, 2003, receivables were as follows:

New York State appropriations and grants	\$ 3,702,063
New York City appropriations and grants	387,597
Contributions receivable	2,004,618
Purchase discount reimbursement contributions receivable	1,018,057
Other receivables	<u>271,196</u>
	7,383,531
Less:	
Allowance for doubtful accounts related to purchase discount reimbursement contributions receivable	(404,237)
Discounts	<u>(66,166)</u>
Total, net	<u>\$ 6,913,128</u>

Brooklyn Public Library
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Notes to Combined Financial Statements (continued)

2. Receivables (continued)

Subsequent to June 30, 2003, substantially all New York State and New York City appropriations and grants receivable were collected. All other receivables are expected to be collected within one year, except for contributions receivable of approximately \$1,751,000, which are expected to be collected in one to three years.

Purchase discount reimbursement contributions arise from an arrangement between the Universal Service Fund (“USF”), a not-for-profit organization, and the Library whereby the Library is granted, by USF, an amount equal to an agreed-upon percentage (83% in fiscal 2003) of expenditures made by the Library in connection with certain public access/information technology initiatives. Items and services are purchased by the Library from vendors specified in the agreement between the Library and USF and, consequently, a contribution at the specified level is made by USF to the Library. Total expenditures related to the agreement between the Library and USF were approximately \$2,032,000 for the year ended June 30, 2003. Contribution revenue under this agreement is recognized as eligible expenditures are made by the Library.

3. Investments

Investments consist of the following at June 30, 2003:

Cash and cash equivalents	\$ 1,162,068
Marketable equity securities	3,415,281
Corporate and U.S. Government debt obligations	2,331,671
Mutual funds	<u>13,234,156</u>
Total investments	<u><u>\$ 20,143,176</u></u>

Investment income consisted of the following for the year ended June 30, 2003:

Dividend and interest income	\$ 391,164
Net realized losses on sales of investments	(269,776)
Net change in unrealized losses on investments	<u>163,542</u>
Total investment income	<u><u>\$ 284,930</u></u>

Investment custodial and advisory fees amounted to approximately \$95,000 for the year ended June 30, 2003 and have been netted against dividend and interest income.

Brooklyn Public Library
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Notes to Combined Financial Statements (continued)

4. Employee Benefits

Vacation Benefits

Vacation benefits are accrued as earned by employees. The accompanying combined financial statements include a liability for vacation benefits earned by employees and unused (carried forward) at fiscal year-end (approximately \$3.3 million at June 30, 2003). The Library believes that, through future appropriations, the City will fund such vacation benefits as they are paid to employees.

Terminal Leave

The Library provides terminal leave with pay upon retirement, not to exceed one month for each ten years of service, pro rated for fractional parts thereof. The Library has estimated the actuarial present value of the accumulated terminal leave benefit to be approximately \$3.0 million as of June 30, 2003. Such amount has been reflected in the accompanying combined financial statements in accrued wages and related liabilities. The significant assumptions used in calculating the actuarial present value of the terminal leave benefit were an interest rate of 6% per annum, a salary increase rate of 3% per annum and withdrawal rates ranging from 8% (age 20) to 2% (age 55) with retirement age of 62. Terminal leave benefits are funded as they are paid to employees. The Library believes that, through future appropriations, the City will fund such benefits as they are paid to employees.

Pension

Substantially all of the Library's employees are participants in the New York State Employees' Retirement System ("NYSERS"). NYSEERS is a cost sharing multiple-employer public employee retirement system that offers plans and benefits related to years of service and final average salary. All benefits generally vest after ten years of accredited service. The City appropriates funds to cover the full cost of pension contributions for City-funded positions each year that payments are due to NYSEERS. Amounts charged to expense for fiscal 2003 approximated \$802,000.

NYSERS follows Government Accounting Standards Board Statement No. 25 ("GASB 25"). Under GASB 25, NYSEERS does not calculate a pension benefit obligation. For additional information on NYSEERS, refer to the State of New York Comprehensive Annual Financial Report of the Comptroller for the year ended March 31, 2003.

Brooklyn Public Library
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Notes to Combined Financial Statements (continued)

4. Employee Benefits (continued)

Postretirement Benefits

The Library contributes to a multiemployer postretirement benefits plan that provides defined benefit postretirement health care benefits to substantially all employees upon retirement. The Library records related expense as payments are made. The City appropriates funds to cover the full cost of postretirement benefits for City-funded positions each year as payments are made. Amounts charged to expense approximated \$2.3 million for fiscal 2003.

5. Property and Equipment

Property and equipment, net, consisted of the following at June 30, 2003:

Furniture and fixtures	\$ 1,280,976
Leasehold improvements	2,900,397
Computer equipment	<u>1,056,769</u>
	5,238,142
Less accumulated depreciation and amortization	<u>2,102,213</u>
	<u>\$ 3,135,929</u>

6. Line of Credit

The Library has a line of credit agreement with a bank to borrow up to \$3.5 million. The line of credit is renewable on an annual basis and all outstanding balances are due at the expiration date. There were no amounts outstanding at June 30, 2003.

7. Commitments and Contingencies

Leases

The Library is party to a number of operating leases that expire at various dates through September 30, 2012. Various leases provide for increases in annual base rentals based on various expenses and other increases. Aggregate rent expense for the year ended June 30, 2003 was approximately \$1.2 million.

Brooklyn Public Library
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Notes to Combined Financial Statements (continued)

7. Commitments and Contingencies (continued)

Pursuant to Statement of Financial Accounting Standards No. 13, *Accounting for Leases*, the aggregate of the future minimum lease payments is amortized on the straight-line basis over the term of the lease. The difference between rent expense calculated on the straight-line basis and rent paid is recorded as deferred rent.

Aggregate future minimum lease payments under noncancelable operating leases that have remaining terms in excess of one year as of June 30, 2003 are approximately as follows:

Year ending June 30:	
2004	\$ 1,154,000
2005	1,195,000
2006	1,053,000
2007	1,071,000
2008	984,000
Thereafter	<u>1,096,000</u>
	<u>\$ 6,553,000</u>

Litigation

The Library currently is involved in litigation arising in the normal course of its activities. Management believes that the amount of losses that might be sustained beyond existing insurance coverages, if any, would not have a material effect on the accompanying combined financial statements.

Brooklyn Public Library
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Notes to Combined Financial Statements (continued)

7. Commitments and Contingencies (continued)

Grantor Audits

The Library's grantors, including City, State and Federal government agencies, have the right to conduct or otherwise require audits of funding they provide to the Library. Such audits might result in disallowances of costs submitted for reimbursement or other questioned amounts. No amounts have been provided in the accompanying combined financial statements for such potential claims.

Other

In June 2003, the Library entered into an agreement with Xerox Corporation, Inc. ("Xerox"), whereby Xerox will provide the Library with an automated patron personal computer reservation and print management solution, including hardware, software and digital photocopiers, together with consulting, implementation, maintenance and ongoing support services. Payments over the initial term of the agreement of five years will total approximately \$8.3 million. The agreement can be extended for an additional six years at the Library's option. As of June 30, 2003, no amounts have been expended under this agreement.

8. Temporarily Restricted Net Assets and Reclassifications

Temporarily restricted net assets are available for the following purposes at June 30, 2003:

Library materials acquisitions	\$ 173,601
Branch library support	296,066
Special programs and other	3,036,921
	<u>\$ 3,506,588</u>

Net assets were released from donor restrictions during the year ended June 30, 2003 by incurring expenses satisfying the restricted purposes specified by the donors as follows:

Library materials acquisitions	\$ 284,735
Branch library support	93,229
Special programs and other	2,082,599
	<u>\$ 2,460,563</u>

Other Financial Information

Brooklyn Public Library
and Brooklyn Public Library Foundation

Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

Federal Grantor/Program Title/Pass-Through Grantor	Federal CFDA Number	Pass- Through Grantor Number	Federal Expenditures
National Foundation on the Arts and Humanities, Institute of Museum and Library Services, Office of Library Services State Library Program:			
IMLS Fosella Expanded Collection	45.310	ND-10009-01	\$ 150,566
IMLS Worklore Brooklyn Voices	45.310	ND-1000601	71,253
Passed through from New York State Department of Education:			
Bibliographic Instruction	45.310	70030098	11,950
Training Tech Leaders	45.310	70030097	61,702
Gateway Training	45.310	70030096	28,780
Real Time E-Mail Reference	45.310	70020047	9,625
Better Business	45.310	70020048	28,881
Summer Reading Material	45.310	70020046	6,782
Literacy Synergy	45.310	70020045	35,574
Total expenditures of federal awards			<u>\$405,113</u>

See accompanying note.

Brooklyn Public Library
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Note to Schedule of Expenditures of Federal Awards

June 30, 2003

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Brooklyn Public Library and Brooklyn Public Library Foundation for the year ended June 30, 2003 and is prepared on the accrual basis of accounting as prescribed by accounting principles generally accepted in the United States. The information in this schedule is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Audit Reports and Schedule
Related to Office of Management
and Budget Circular A-133

Report of Independent Auditors on Compliance and
on Internal Control Over Financial Reporting Based on an
Audit of the Financial Statements in Accordance
with *Government Auditing Standards*

Board of Trustees
Brooklyn Public Library

We have audited the combined financial statements of Brooklyn Public Library and Brooklyn Public Library Foundation (the “Library”) as of and for the year ended June 30, 2003, and have issued our report thereon dated September 24, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Library’s combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Library's Board of Trustees, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

September 24, 2003

Report of Independent Auditors on Compliance
with Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in
Accordance with OMB Circular A-133

Board of Trustees
Brooklyn Public Library

Compliance

We have audited the compliance of Brooklyn Public Library and Brooklyn Public Library Foundation (the “Library”) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*, that are applicable to its major federal program for the year ended June 30, 2003. The Library’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Library’s management. Our responsibility is to express an opinion on the Library’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Library’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Library’s compliance with those requirements.

In our opinion, the Library complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the Library is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Library's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Library's Board of Trustees, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

September 24, 2003

Brooklyn Public Library
and Brooklyn Public Library Foundation

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Part I—Summary of Auditor’s Results Section

Financial Statement Section

Type of auditor’s report issued	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Reportable condition(s) identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards Section

Dollar threshold used to determine Type A programs	\$300,000
Auditee qualified as low-risk auditee?	Yes
Type of auditor’s report on compliance with major programs	Unqualified
Internal control over compliance:	
Material weakness(es) identified?	No
Reportable condition(s) identified not considered to be material weakness(es)?	No
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (Section 510(a))?	No

Identification of major programs:

CFDA Number(s) or Contract Number	Name of Federal Program or Cluster
45.310	National Foundation on the Arts and Humanities, Institute of Museum and Library Services, Office of Library Services State Library Program

Brooklyn Public Library
and Brooklyn Public Library Foundation

Schedule of Findings and Questioned Costs (continued)

Part II—Schedule of Financial Statement Findings

None.

Part III—Schedule of Federal Award Findings and Questioned Costs

None.