

The Pawling Free Library

Financial Statements

December 31, 2013 and 2012

Independent Auditors' Report**Board of Trustees****The Pawling Free Library**

We have audited the accompanying financial statements of The Pawling Free Library (the "Library") which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Pawling Free Library, as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

O'Connor Davies, LLP

New Windsor, New York

July 17, 2014

O'CONNOR DAVIES, LLP

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The Pawling Free Library

Statements of Financial Position

	December 31,	
	2013	2012
ASSETS		
Cash and cash equivalents	\$ 336,251	\$ 222,997
Accounts receivable, net	3,334	555
Prepaid expenses	5,485	5,181
Land, property and equipment, net	462,479	489,352
Deferred financing costs, net	<u>1,688</u>	<u>2,180</u>
	<u>\$ 809,237</u>	<u>\$ 720,265</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 3,753	\$ 5,097
Accrued expenses	3,818	437
Mortgage payable	<u>87,706</u>	<u>109,041</u>
Total Liabilities	<u>95,277</u>	<u>114,575</u>
Net Assets		
Unrestricted	658,960	605,690
Temporarily Restricted	<u>55,000</u>	<u>-</u>
Total Net Assets	<u>713,960</u>	<u>605,690</u>
	<u>\$ 809,237</u>	<u>\$ 720,265</u>

See notes to financial statements

The Pawling Free Library

Statements of Activities

	Year Ended December 31,	
	2013	2012
UNRESTRICTED NET ASSETS		
Operating Revenue		
Property taxes	\$ 390,000	\$ 390,000
Grants and other aid	7,688	39,024
Contributions	29,396	34,599
Library charges	13,912	11,669
Interest	202	216
Total Operating Revenue	<u>441,198</u>	<u>475,508</u>
Operating Expenses		
Salaries and benefits	240,654	253,345
Consulting and professional fees	10,275	7,790
Programs, books, periodicals, other materials	38,673	37,055
Utilities	10,965	9,928
Repairs and maintenance	17,871	15,929
Automation and computer costs	6,885	11,072
Insurance	8,399	7,995
Office expense	4,544	8,307
Telephone	1,068	1,072
Travel	679	1,884
Dues and subscriptions	615	2,878
Miscellaneous	4,704	6,451
Mortgage interest	7,041	8,544
Advertising	8,190	12,843
Depreciation and amortization	27,365	29,228
Total Operating Expenses	<u>387,928</u>	<u>414,321</u>
Change in Unrestricted Net Assets	53,270	61,187
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	<u>55,000</u>	<u>-</u>
Temporarily restricted net assets, end of year	<u>55,000</u>	<u>-</u>
Change in Net Assets	108,270	61,187
NET ASSETS		
Beginning of year	<u>605,690</u>	<u>544,503</u>
End of year	<u>\$ 713,960</u>	<u>\$ 605,690</u>

See notes to financial statements

The Pawling Free Library

Statements of Cash Flows

	Year Ended December 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 108,270	\$ 61,187
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	27,365	29,228
Change in operating assets and liabilities		
Accounts receivable	(2,779)	(555)
Prepaid expenses	(304)	(2,228)
Accounts payable	(1,344)	703
Accrued expenses	3,381	(6,996)
Net Cash from Operating Activities	134,589	81,339
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	-	(18,364)
Net Cash from Investing Activities	-	(18,364)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of mortgage payable	(21,335)	(19,831)
Net Cash from Financing Activities	(21,335)	(19,831)
Net Change in Cash and Cash Equivalents	113,254	43,144
CASH AND CASH EQUIVALENTS		
Beginning of year	222,997	179,853
End of year	\$ 336,251	\$ 222,997
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 7,041	\$ 8,544

The Pawling Free Library

Notes to Financial Statements
December 31, 2013 and 2012

1. Organization and Taxation

The Pawling Free Library (the "Library") seeks to serve the Town of Pawling, including the Hamlet of Holmes as well as the surrounding areas, by making high-quality library materials available to all community members free of charge, for the purpose of personal enjoyment, self improvement or academic inquiry. By meeting the community members' needs, the Library hopes to encourage enthusiastic readers of all ages dedicated to personal enrichment and learning.

The Library was granted an Absolute Charter on February 20, 1942 pursuant to the Education Law of the State of New York and is exempt from Federal income taxes under 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). The Library is structured as an "Association Library" and is operated for the free use of the public.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which 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 revenue and expenses during the reporting period. Accordingly actual results could differ from those estimates.

Financial Statement Presentation

Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Library and the changes therein are classified and reported as unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. All contributions are considered available for unrestricted use unless specifically restricted by the donor or subject to other legal restrictions.

Budgetary Data and Property Taxes

"Chapter 414" of the laws of 1995 in New York State requires the Library to put their budget up for public vote, on election day, to establish the municipal budget appropriation for the Library. Should the budget pass (requires approval by a majority vote), the Town of Pawling funds the library at the appropriate level from assessed property taxes. The amount approved remains unchanged until another "Chapter 414" vote is initiated by the Library's Board of Trustees. Should the initial budget fail, the Library negotiates with the Town of Pawling for funding.

The Pawling Free Library

Notes to Financial Statements
December 31, 2013 and 2012

2. Summary of Significant Accounting Policies (*continued*)

Public Support and Revenue Recognition

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which contributions are received are classified as unrestricted contributions. Property tax revenue received from the Town of Pawling is unrestricted for the programs and operations of the Library.

Cash and Cash Equivalents

The Library considers all highly liquid investments with an initial maturity of three months or less, at time of purchase, to be cash equivalents.

Accounts Receivable

Accounts receivable is stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that remain outstanding after management has used reasonable collection efforts are written off through a reduction in the valuation allowance and accounts receivable. As of December 31, 2013 and 2012, no allowance for doubtful accounts has been deemed necessary.

Land, Property and Equipment

Land, property and equipment are carried at cost, if purchased, or at their estimated fair values on the date of receipt, if contributed. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from 5-39 years. Significant renewals and betterments with a useful life greater than one year and in excess of \$1,000 are capitalized.

Mortgage Loan Costs

The Library has capitalized costs associated with a mortgage loan and amortizes them over the life of the mortgage.

The Pawling Free Library

Notes to Financial Statements
December 31, 2013 and 2012

2. Summary of Significant Accounting Policies (*continued*)

In-Kind Support

A number of the members of the Board of Trustees have contributed significant amounts of their time to the affairs of the Library; however, these services, if not professional in nature, have not been reflected in the financial statements unless the services provided represent the value of services provided by an otherwise salaried employee.

The Library receives, without charge, the services of various volunteers. The value of those services is not recognized in the accompanying financial statements because they did not meet the criteria for recognition.

Donated goods are recorded at fair value in the period received.

Functional Allocation of Expenses

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

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were \$1,917 and \$12,843 for 2013 and 2012.

Accounting for Uncertainty in Income Taxes

The Library recognizes the effects of tax positions only if those positions are more likely than not to be sustained. Management has determined that the Library had no uncertain tax positions that would require financial statement recognition and/or disclosure. The Library is no longer subject to examinations by applicable taxing jurisdictions for periods prior to December 31, 2010.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is July 17, 2014.

Reclassifications

Certain amounts in the 2013 financial statements have been reclassified to conform with the 2012 presentation. These reclassifications have had no effect on net assets.

The Pawling Free Library

Notes to Financial Statements
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3. Land, Property and Equipment, Net

Land, property and equipment, net consists of the following at December 31:

	2013	2012
Land	\$ 29,141	\$ 29,141
Building and improvements	727,708	727,708
Furniture, fixtures and equipment	47,226	47,226
	804,075	804,075
Accumulated depreciation	(341,596)	(314,723)
	<u>\$ 462,479</u>	<u>\$ 489,352</u>

4. Deferred Financing Costs, Net

Deferred financing costs, net consist of the following at December 31:

	2013	2012
Mortgage loan costs	\$ 7,387	\$ 7,387
Accumulated amortization	(5,699)	(5,207)
	<u>\$ 1,688</u>	<u>\$ 2,180</u>

5. Mortgage Payable

The Library refinanced a mortgage on June 1, 2007 in the original principal amount of \$202,706. The new mortgage has a fixed rate interest of 7% and provides for monthly payments of principal and interest of \$2,365 through its maturity in June 2017. The mortgage is secured by real property.

Principal maturities on the mortgage for the years ended December 31 are as follows:

2014	\$ 22,886
2015	24,564
2016	26,358
2017	13,898
	<u>\$ 87,706</u>

6. Borrowings Under Line of Credit

The Library maintains a line of credit agreement with a bank in the amount of \$25,000. Interest is calculated at the Wall Street Journal Prime rate plus 1.5% (4.75% at December 31, 2013 and 2012). The line of credit is collateralized by the Library's business assets. There was no outstanding balance as of December 31, 2013 and 2012.

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Notes to Financial Statements
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7. Temporarily Restricted Net Assets

Temporarily restricted net assets of \$55,000 are available for building expansion at December 31, 2013.

8. Functional Expenses

The Library provides services to residents within its geographic location. Expenses relating to providing services for the years ended December 31, were as follows:

	2013	2012
Programs	\$ 333,771	\$ 355,643
Management	47,884	48,344
Fundraising	6,273	10,334
	<u>\$ 387,928</u>	<u>\$ 414,321</u>

9. Related Parties

The Pawling Library Foundation (the "Foundation") is an independent not-for-profit organization created in 2009. The Foundation is a volunteer organization dedicated to helping the Library grow through charitable educational and cultural means. During 2012 the Foundation began dissolution of its 501(c)(3) corporation status. The dissolution was completed in 2013. The Library performed its own fundraising for 2013 and 2012.

10. Concentration of Credit Risk

Financial instruments that potentially subject the Library to concentrations of credit risk consist principally of cash and cash equivalents. At times, cash balances held at financial institutions may be in excess of federally insured limits. The Library has not experienced any losses on its cash deposits. The Library believes it is not exposed to significant credit risks with respect to its cash and cash equivalents.

For 2013 and 2012 revenue from State and local governments approximated 90% of the Library's total revenue and support.

11. Economic Dependency

The Library receives a substantial amount of its support from State and local governments. A significant reduction in the level of this support, if this were to occur, may have an effect on the Library's programs and activities.

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