

The Pawling Free Library

Financial Statements

December 31, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PKF O'Connor Davies, LLP

Newburgh, New York

June 15, 2018

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The Pawling Free Library
Statements of Financial Position

	December 31,	
	2017	2016
ASSETS		
Cash and cash equivalents	\$ 264,478	\$ 235,999
Prepaid expenses	2,616	3,248
Land, property and equipment, net	417,724	443,981
	\$ 684,818	\$ 683,228
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 6,378	\$ 647
Accrued expenses	2,372	4,073
Mortgage payable, net	-	9,161
Total Liabilities	8,750	13,881
 Net Assets		
Unrestricted	595,068	614,347
Temporarily restricted	56,000	55,000
Permanently restricted	25,000	-
Total Net Assets	676,068	669,347
	\$ 684,818	\$ 683,228

See notes to financial statements

The Pawling Free Library
 Statements of Activities
 Years Ended December 31, 2017

	2017			2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT							
Property taxes	\$ 390,000	\$ -	\$ -	\$ 390,000	\$ 390,000	\$ -	\$ 390,000
Grants and other aid	10,217	-	-	10,217	15,615	-	15,615
Contributions	22,898	1,000	25,000	48,898	28,005	-	28,005
Library charges	16,207	-	-	16,207	13,389	-	13,389
Interest	<u>295</u>	<u>-</u>	<u>-</u>	<u>295</u>	<u>299</u>	<u>-</u>	<u>299</u>
Total Revenue and Support	<u>439,617</u>	<u>1,000</u>	<u>25,000</u>	<u>465,617</u>	<u>447,308</u>	<u>-</u>	<u>447,308</u>
EXPENSES							
Salaries and benefits	295,644	-	-	295,644	316,081	-	316,081
Consulting and professional fees	11,705	-	-	11,705	11,500	-	11,500
Programs, books, periodicals, other materials	53,555	-	-	53,555	44,980	-	44,980
Utilities	10,027	-	-	10,027	8,211	-	8,211
Repairs and maintenance	18,873	-	-	18,873	14,563	-	14,563
Automation and computer costs	5,088	-	-	5,088	2,062	-	2,062
Insurance	9,950	-	-	9,950	10,500	-	10,500
Office expense	5,033	-	-	5,033	6,331	-	6,331
Annual appeal	2,909	-	-	2,909	2,737	-	2,737
Annual book sale	5,281	-	-	5,281	5,382	-	5,382
Telephone	2,596	-	-	2,596	2,672	-	2,672
Travel	1,287	-	-	1,287	885	-	885
Dues and subscriptions	1,371	-	-	1,371	1,413	-	1,413
Miscellaneous	6,021	-	-	6,021	5,303	-	5,303
Interest	416	-	-	416	2,470	-	2,470
Advertising	2,883	-	-	2,883	2,426	-	2,426
Depreciation	<u>26,257</u>	<u>-</u>	<u>-</u>	<u>26,257</u>	<u>25,844</u>	<u>-</u>	<u>25,844</u>
Total Expenses	<u>458,896</u>	<u>-</u>	<u>-</u>	<u>458,896</u>	<u>463,360</u>	<u>-</u>	<u>463,360</u>
Change in Net Assets	(19,279)	1,000	25,000	6,721	(16,052)	-	(16,052)
NET ASSETS							
Beginning of year	<u>614,347</u>	<u>55,000</u>	<u>-</u>	<u>669,347</u>	<u>630,399</u>	<u>55,000</u>	<u>685,399</u>
End of year	<u>\$ 595,068</u>	<u>\$ 56,000</u>	<u>\$ 25,000</u>	<u>\$ 676,068</u>	<u>\$ 614,347</u>	<u>\$ 55,000</u>	<u>\$ 669,347</u>

See notes to financial statements

The Pawling Free Library

Statements of Cash Flows

	Year Ended December 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 6,721	\$ (16,052)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	26,257	25,844
Amortization of debt issuance costs	-	212
Permanently restricted contributions	(25,000)	-
Change in operating assets and liabilities		
Prepaid expenses	632	2,862
Accounts payable	5,731	(1,724)
Accrued expenses	(1,701)	1,143
Net Cash from Operating Activities	12,640	12,285
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	-	(34,357)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal repayments of mortgage payable	(9,161)	(28,481)
Permanently restricted contributions	25,000	-
Net Cash from Financing Activities	15,839	(28,481)
Net Change in Cash and Cash Equivalents	28,479	(50,553)
CASH AND CASH EQUIVALENTS		
Beginning of year	235,999	286,552
End of year	\$ 264,478	\$ 235,999
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 416	\$ 2,470

The Pawling Free Library

Notes to Financial Statements
December 31, 2017 and 2016

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 encourages 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, 2017 and 2016

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.

Permanently Restricted Net Assets

Permanently restricted net assets represent funds restricted by the donor in perpetuity, the income of which is unrestricted and expendable to support operations.

Cash and Cash Equivalents

The Library considers all highly liquid investments with a 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, 2017 and 2016, all receivables were collected and an allowance for doubtful accounts has been deemed not necessary.

Land, Property and Equipment

Land, property and equipment are carried at cost, if purchased, or at their estimated fair value 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 in excess of \$1,000 with a useful life greater than one year are capitalized.

Debt Issuance Costs

Debt issuance costs are reported on the statements of financial position as a direct deduction from the face amount of the debt. The debt issuance costs are being amortized over the term of the debt on a method that approximates the interest method. The Library reflects the amortization of debt issuance costs within interest expense.

The Pawling Free Library

Notes to Financial Statements
December 31, 2017 and 2016

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 activities of the Library have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs approximated \$2,900 and \$2,400 for 2017 and 2016.

Accounting for Uncertainty in Income Taxes

The Library recognizes the effects of income tax positions only when they 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 examination by applicable taxing jurisdictions for periods prior to December 31, 2014.

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 June 15, 2018.

The Pawling Free Library

Notes to Financial Statements
December 31, 2017 and 2016

3. Land, Property and Equipment, Net

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

	<u>2017</u>	<u>2016</u>
Land	\$ 29,141	\$ 29,141
Building and improvements	758,416	758,416
Furniture, fixtures and equipment	<u>75,307</u>	<u>75,307</u>
	862,864	862,864
Accumulated depreciation	<u>(445,140)</u>	<u>(418,883)</u>
	<u>\$ 417,724</u>	<u>\$ 443,981</u>

4. Mortgage Payable

The Library had a mortgage in the original principal amount of \$202,706 secured by real property. The mortgage had a fixed rate interest of 7% and provided for monthly payments of principal and interest of \$2,365 through its maturity in June 2017. The debt issuance costs at December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Principal amount	\$ -	\$ 9,373
Debt issuance costs	<u>-</u>	<u>(212)</u>
Mortgage, net	<u>\$ -</u>	<u>\$ 9,161</u>

Accumulated amortization of debt issuance costs was \$7,387 and \$7,175 at December 31, 2017 and 2016.

5. 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% (6% and 5.25% at December 31, 2017 and 2016). The line of credit is collateralized by the Library's business assets. There was no outstanding balance as of December 31, 2017 and 2016.

6. Temporarily Restricted Net Assets

Temporarily restricted net assets of \$56,000 and \$55,000 are available for building expansion at December 31, 2017 and 2016.

7. Permanently Restricted Net Assets

In 2017 the Library received a bequest in the amount of \$25,000 to be used to create an endowment in support of operations. Subsequent to year end, management and the Board are in the process of creating an endowment and investment policy. In December 2017, the corpus was moved from a checking account to an interest earning investment account. There was no earnings or distributions for the year ended December 31, 2017.

The Pawling Free Library

Notes to Financial Statements
December 31, 2017 and 2016

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:

	<u>2017</u>	<u>2016</u>
Programs	\$ 394,651	\$ 398,490
Management	55,068	55,603
Fundraising	<u>9,178</u>	<u>9,267</u>
	<u>\$ 458,897</u>	<u>\$ 463,360</u>

9. Endowment Fund

Interpretation of Law

The Library follows the provisions of the New York State Uniform Prudent Management of Institutional Funds Act (“NYPMIFA”). The Board of Trustees of the Library has interpreted NYPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Library classified as permanently restricted net assets the original value of gifts donated to permanent endowment. Subsequent to December 31, 2017 the Library will also classify as permanently restricted net assets (a) the original value of subsequent gifts to the permanent endowment, and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Any remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets will be classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Library in a manner consistent with the standard of prudence prescribed by NYPMIFA.

Subsequent to December 31, 2017, the Library is in the process of creating investment and spending policies that comply with NYPMIFA. (See note 7).

10. Concentrations of Credit Risk

Financial instruments that potentially subject the Library to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation limit. The Library does not believe that a significant risk of loss due to the failure of a financial institution presently exists.

For 2017 and 2016, revenue from State and local governments approximated 86% and 90% of the Library’s total operating revenue.

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 it were to occur, would have a negative effect on the Library’s programs and activities.

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