

The Pawling Free Library

Financial Statements

December 31, 2018 and 2017

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, 2018 and 2017, and the related statements of activities, functional expenses 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, 2018 and 2017, 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.

Board of Trustees
The Pawling Free Library
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Change in Accounting Principle

As discussed in note 2 to the financial statements, during the year ended December 31, 2018 The Pawling Free Library adopted new accounting guidance resulting in a change in the manner in which it presents net assets and reports certain aspects of its financial statements. Our opinion is not modified with respect to this matter.

PKF O'Connor Davies, LLP

Newburgh, New York
June 3, 2019

The Pawling Free Library
Statements of Financial Position

	December 31,	
	2018	2017
ASSETS		
Cash and cash equivalents	\$ 226,808	\$ 239,478
Restricted endowment fund cash	-	25,000
Investments	23,737	-
Prepaid expenses	3,386	2,616
Land, property and equipment, net	420,675	417,724
	\$ 674,606	\$ 684,818
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 30,716	\$ 6,378
Accrued expenses	5,388	2,372
Total Liabilities	36,104	8,750
 Net Assets		
Without donor restrictions	557,502	595,068
With donor restrictions		
Purpose restrictions	56,000	56,000
Perpetual in nature	25,000	25,000
Total Net Assets	638,502	676,068
	\$ 674,606	\$ 684,818

The Pawling Free Library
Statement of Activities
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Property taxes	\$ 390,000	\$ -	\$ 390,000
Grants and other aid	12,795	-	12,795
Contributions	73,796	-	73,796
Library charges	12,142	-	12,142
Investment Income, net	(1,264)	-	(1,264)
Interest	815	-	815
Total Revenue and Support	488,284		488,284
EXPENSES			
Program services	428,248	-	428,248
Management and general	62,547	-	62,547
Fundraising	35,055	-	35,055
Total Expenses	525,850	-	525,850
Change in Net Assets	(37,566)	-	(37,566)
NET ASSETS			
Beginning of year	595,068	81,000	676,068
End of year	\$ 557,502	\$ 81,000	\$ 638,502

See notes to financial statements

The Pawling Free Library
Statement of Activities
Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Property taxes	\$ 390,000	\$ -	\$ 390,000
Grants and other aid	10,217	-	10,217
Contributions	22,898	26,000	48,898
Library charges	16,207	-	16,207
Interest	295	-	295
Total Revenue and Support	439,617	26,000	465,617
EXPENSES			
Program services	395,705	-	395,705
Management and general	55,001	-	55,001
Fundraising	8,190	-	8,190
Total Expenses	458,896	-	458,896
Change in Net Assets	(19,279)	26,000	6,721
NET ASSETS			
Beginning of year	614,347	55,000	669,347
End of year	\$ 595,068	\$ 81,000	\$ 676,068

The Pawling Free Library

Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services	Management & General	Fundraising	Total
PERSONNEL				
Salaries and benefits	\$ 273,732	\$ 32,833	\$ -	\$ 306,565
OTHER THAN PERSONNEL				
Consulting and professional fees	-	21,270	-	21,270
Programs, books, periodicals, other materials	55,970	-	-	55,970
Utilities	11,416	-	-	11,416
Repairs and maintenance	27,034	-	-	27,034
Automation and computer costs	9,980	-	-	9,980
Insurance	2,615	7,183	-	9,798
Office expense	5,097	1,000	-	6,097
Annual appeal	-	-	1,271	1,271
Annual book sale	-	-	4,084	4,084
Telephone	3,660	-	-	3,660
Travel	1,469	-	-	1,469
Dues and subscriptions	1,166	-	-	1,166
Miscellaneous	5,424	261	-	5,685
Advertising	4,445	-	-	4,445
Impairment of construction in process	-	-	29,700	29,700
Depreciation	26,240	-	-	26,240
	\$ 428,248	\$ 62,547	\$ 35,055	\$ 525,850

The Pawling Free Library

Statement of Functional Expenses Year Ended December 31, 2017

	Program Services	Management and General	Fundraising	Total
PERSONNEL				
Salaries and benefits	\$ 263,123	\$ 32,521	\$ -	\$ 295,644
OTHER THAN PERSONNEL				
Consulting and professional fees	-	11,705	-	11,705
Programs, books, periodicals, other materials	53,555	-	-	53,555
Utilities	10,027	-	-	10,027
Repairs and maintenance	18,873	-	-	18,873
Automation and computer costs	5,088	-	-	5,088
Insurance	2,686	7,264	-	9,950
Office expense	4,228	805	-	5,033
Annual appeal	-	-	2,909	2,909
Annual book sale	-	-	5,281	5,281
Telephone	2,596	-	-	2,596
Travel	1,287	-	-	1,287
Dues and subscriptions	1,371	-	-	1,371
Miscellaneous	5,720	301	-	6,021
Advertising	894	1,989	-	2,883
Interest	-	416	-	416
Depreciation	26,257	-	-	26,257
	\$ 395,705	\$ 55,001	\$ 8,190	\$ 458,896

The Pawling Free Library

Statements of Cash Flows

	Year Ended December 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (37,566)	\$ 6,721
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	26,240	26,257
Impairment of construction in progress	29,700	-
Change in operating assets and liabilities		
Prepaid expenses	(770)	632
Accounts payable	24,338	5,731
Accrued expenses	3,016	(1,701)
Net Cash from Operating Activities	44,958	37,640
CASH FLOWS FROM INVESTING ACTIVITIES		
Endowment contributions	-	(25,000)
Acquisition of property and equipment	(58,891)	-
Purchase of investments	(23,737)	-
Net Cash from Investing Activities	(82,628)	(25,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal repayments of mortgage payable	-	(9,161)
Endowment contributions	-	25,000
Net Cash from Financing Activities	-	15,839
Net Change in Cash and Cash Equivalents	(37,670)	28,479
CASH AND CASH EQUIVALENTS		
Beginning of year	264,478	235,999
End of year	\$ 226,808	\$ 264,478
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ -	\$ 416

See notes to financial statements

The Pawling Free Library

Notes to Financial Statement
December 31, 2018

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.

Net assets are classified based on the presence or absence of donor imposed restrictions. Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Without donor restrictions – consist of resources available for the general support of Library’s operations. Net assets without donor restriction may be used at the discretion of Library’s management and Board of Trustees.

With donor restrictions – some donor imposed restrictions represent amounts restricted by donors for specific activities of Hospice or to be used at some future date. The Library records contributions as with donor restrictions if they are received with donor stipulations that limit their use either through purpose or time restrictions. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of operations and changes in net assets as net assets released from restrictions. Amounts restricted by donors for the Library’s operating programs whose restrictions are met in the same reporting period are reported as net assets without donor restrictions.

The Pawling Free Library

Notes to Financial Statement
December 31, 2018

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

Recently Adopted Accounting Pronouncements

The Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Library has adjusted the presentation of these financial statements accordingly.

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.

Public Support and Revenue Recognition

Grants and other contributions of cash and other assets are reported as net assets with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from donor restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which contributions are received are classified as net assets without donor restrictions. Property tax revenue received from the Town of Pawling is for the programs and operations of the Library and is classified as net assets without donor restrictions in the statement of activities.

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, 2018 and 2017, all receivables were collected and an allowance for doubtful accounts has been deemed not necessary.

The Pawling Free Library

Notes to Financial Statement
December 31, 2018

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements

The Library follows U.S. GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Investment Valuation and Income Recognition

Investments are measured at fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the cash basis and dividends are recorded when paid. Investment gains and losses, both realized and unrealized, are reported in the statements of operations and changes in net assets as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law.

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.

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 Organization's programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

The Pawling Free Library

Notes to Financial Statement
December 31, 2018

2. Summary of Significant Accounting Policies (continued)

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Personnel costs	Time and effort
Professional services	Full time equivalent
Office expense	Square footage
Technology and utilities	Full time equivalent
Travel	Time and effort
Depreciation	Square footage
Other	Time and effort

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs approximated \$4,400 and \$2,900 for 2018 and 2017.

Accounting for Uncertainty in Income Taxes

The Library recognizes the effects of income tax positions 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, 2015.

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 3, 2019.

3. Liquidity and Availability

The Library's working capital and cash flows have seasonal variations during the year attributable to the annual cash receipts for a concentration of contributions received near calendar year end. To manage liquidity the Library maintains a line of credit of \$25,000 with a bank that is drawn upon as needed during the year to manage cash flow and is then repaid in full by the end of the fiscal year.

The Pawling Free Library

Notes to Financial Statement
December 31, 2018

3. Liquidity and Availability *(continued)*

The following reflects the Library's financial assets as of December 31, 2018, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions. Amounts available include the Board-approved appropriation from the endowment fund for the following year as well as donor-restricted amounts that are available for general expenditure in the following year.

	2018
Total assets	\$ 674,606
Less:	
Prepaid expenses	3,386
Endowment funds - investments in perpetuity	25,000
Board designated - Building Fund	76,681
Land, property and equipment, net	420,675
Financial assets available within one year	\$ 148,864

4. Land, Property and Equipment, Net

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

	2018	2017
Land	\$ 29,141	\$ 29,141
Building and improvements	784,285	758,416
Furniture, fixtures and equipment	78,629	75,307
	892,055	862,864
Accumulated depreciation	(471,380)	(445,140)
	\$ 420,675	\$ 417,724

5. 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, 2018 and 2017 was \$0. Accumulated amortization of debt issuance costs was \$0 and \$7,387 at December 31, 2018 and 2017.

The Pawling Free Library

Notes to Financial Statement
December 31, 2018

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% (7% and 6% at December 31, 2018 and 2017). The line of credit is collateralized by the Library's business assets. There was no outstanding balance as of December 31, 2018 and 2017.

7. Net Assets

Net assets with donor restrictions are restricted for the following purpose at December 31:

	<u>2018</u>	<u>2017</u>
<i>Subject to expenditure for specified purpose:</i>		
Building expansion	\$ 56,000	\$ 56,000
<i>Subject to the Library's spending policy and appropriation:</i>		
Investment in perpetuity	<u>25,000</u>	<u>25,000</u>
	<u>\$ 81,000</u>	<u>\$ 81,000</u>

For the years ended December 31, 2018 and 2017, net assets without donor restriction includes \$76,681 and \$146,831 designated by the Board of Directors as a building fund. During 2018, \$138,633 was released for use. There were no net assets released from donor restriction during the years ended December 31, 2018 and 2017.

8. Endowment, Investments and Investment Return

In 2017 the Library received a bequest in the amount of \$25,000 to be used to create an endowment in support of operations. In December 2017, the corpus was moved from a checking account to an interest earning investment account. During 2018, the Board created an endowment that includes donor designated net assets with restriction and board designated net assets without restriction.

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 donor restricted net assets held in perpetuity (a) the original value of 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 as held in perpetuity will be classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Library in a manner consistent with the standard of prudence prescribed by NYPMIFA.

The Pawling Free Library

Notes to Financial Statement
December 31, 2018

8. Endowment, Investments and Investment Return *(continued)*

Investment Return Objectives, Risk Parameters and Strategies

To satisfy its long-term rate of return objectives, The Pawling Free Library relies on a total return strategy, in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends), The Pawling Free Library targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives with prudent risk constraints.

Spending Policy

The Pawling Free Library invests its endowment funds and allocates the related earnings for expenditure in accordance with the total return policy concept. The endowment usage is determined in accordance with the policy adopted by the Pawling Free Library. This policy fixes the spending range of endowment total return between 4.5% and 5.5% of the average fair value of the assets since the inception of the endowment or the previous twelve quarters, whichever period is the shortest, with the objective being to hold the spending rate to no more than 5% average over time. Applicable endowments include donor-designated and Board- designated endowment funds.

The following is a reconciliation of the activity in the endowment fund at December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, December 31, 2017	\$ 146,831	\$ 25,000	\$ 171,831
Board designated cash	67,986	-	67,986
Investment income, net	497	625	1,122
Capital depreciation	-	(1,888)	(1,888)
Distribution from Board designated cash	(138,633)	-	(138,633)
Balance, December 31, 2018	\$ 76,681	\$ 23,737	\$ 100,418
Comprised of the Following:			
Board designated cash	\$ 76,681	\$ -	\$ 76,681
Donor restricted funds - investment in perpetuity	-	23,737	23,737
Total Endowment Investments	\$ 76,681	\$ 23,737	\$ 100,418

As previously discussed at December 31, 2017 the endowment of \$25,000 was maintained in cash.

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted NYPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2018, funds with original gift values of \$25,000, fair values of \$23,737 and deficiencies of \$1,263 were reported in net assets with donor restrictions.

The Pawling Free Library

Notes to Financial Statement
December 31, 2018

8. Endowment, Investments and Investment Return (continued)

There were no investments at December 31, 2017. The following are major categories of investments measured at fair value categorized by the fair value hierarchy at December 31, 2018:

Quoted Prices in Active Market for Identical Assets (Level 1)	
Mutual funds	\$ 10,931
Fixed income corporate bonds	<u>12,723</u>
	23,654
Cash and cash equivalents	<u>83</u>
	<u>\$ 23,737</u>

Investment return consists of the following at December 31, 2018:

Interest and dividends	\$ 624
Net unrealized and realized loss	<u>(1,888)</u>
	<u>\$ (1,264)</u>

9. Concentrations of Credit Risk

Financial instruments which potentially subject the Library to concentrations of credit risk consist primarily of cash and cash equivalents and investments. At times, cash balances may be in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limit. The Library does not believe that a significant risk of loss due to the failure of a financial institution presently exists.

For 2018 and 2017, revenue from State and local governments approximated 80% and 85% of the Library's total operating revenue.

10. 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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