

**THE PETERSBURG LIBRARY FOUNDATION, INC.**

**FINANCIAL STATEMENTS**

**For the Years Ended**

**December 31, 2013 & December 31, 2012**

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# Stephen M. Ragland, Ltd.

Certified Public Accountants  
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## *Independent Auditor's Report*

Board of Trustees  
The Petersburg Library Foundation, Inc.  
137 S. Sycamore Street  
Petersburg, VA 23803

We have audited the accompanying statement of financial position of The Petersburg Library Foundation, Inc., (a nonprofit organization) as of December 31, 2013 and 2012, and the related statements of activities, changes in fund balances, 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.

### **Auditor's Responsibility**

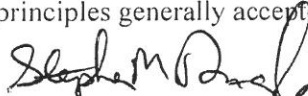
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 auditor's 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 Petersburg Library Foundation, Inc. as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

  
Stephen M. Ragland, Ltd.  
May 8, 2014

The Petersburg Library Foundation, Inc.  
Statement of Financial Position  
as of December 31, 2013 & December 31, 2012

	<b>ASSETS</b>	
	12/31/2013	12/31/2012
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 375,876	\$ 101,527
Interest Receivable	7,400	-
Unconditional promises to give	522,103	658,869
Total Current Assets	905,379	760,396
<b>Capital Assets:</b>		
Construction in progress	-	4,217,548
Office equipment	4,410	4,410
Land	-	343,700
Less: accumulated depreciation	(3,192)	(2,310)
Total Capital Assets	1,218	4,563,348
<b>Other Assets:</b>		
Unconditional promises to give	215,670	124,779
Deposit - New Market Tax Credit	-	75,000
Acquisition Costs - Corporation	-	68,662
Note Receivable - Petersburg Library Investment	8,879,525	-
Total Other Assets	9,095,195	268,441
Total Assets	\$ 10,001,792	\$ 5,592,185

**LIABILITIES AND NET ASSETS**

<b>Current Liabilities:</b>		
Accounts payable	\$ 36,833	\$ 1,223,200
Accrued interest payable	6,920	-
Accrued salaries payable	4,631	4,707
Payroll taxes payable	354	360
Notes payable-current portion	522,103	-
Total Current Liabilities	570,841	1,228,267
<b>Long-Term Liabilities:</b>		
LISC bridge loan	1,345,873	-
Less: current portion of long term debt	(522,103)	-
Total Long Term Liabilities	823,770	-
<b>Net Assets:</b>		
Net Assets - unrestricted	8,606,185	4,320,137
Net Assets - temporarily restricted	996	43,781
Total Net Assets	8,607,181	4,363,918
Total Liabilities and Net Assets	\$ 10,001,792	\$ 5,592,185

The Auditor's report and accompanying notes are an integral part of these statements

The Petersburg Library Foundation, Inc.  
Statement of Activities  
Twelve Months Ended December 31, 2013 & December 31, 2012

	Twelve Months Ended 12/31/13	Twelve Months Ended 12/31/12
<b>UNRESTRICTED NET ASSETS</b>		
<b>Support and Revenue</b>		
Donations	\$ 5,856,316	\$ 697,521
Interest income	-	2,664
Total Support and Revenue	5,856,316	700,185
Net assets released from donor restrictions	165,448	1,440,196
Total Unrestricted Support and Revenue	6,021,764	2,140,381
<b>Expenses Paid</b>		
Program Services		
Capital Campaign	188,032	149,372
Construction	1,908,635	814
Literature Fund	15	-
Workforce Development	-	50,000
Total Program Services	2,096,682	200,186
Supporting Services		
General and administrative expenses	16,068	15,828
Total Supporting Services	16,068	15,828
Total Expenses	2,112,750	216,014
<b>Other Income</b>		
Interest income	64,319	-
Other income	257,109	-
Total Other Income	321,428	-
Increase (decrease) in unrestricted net assets	4,230,442	1,924,367
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Restricted grants	-	15,000
Restricted donations	178,269	330,690
Net assets released from restrictions	(165,448)	(1,440,196)
Change in Temporarily Restricted Net Assets	12,821	(1,094,506)
Total increase (decrease) in Net Assets	4,243,263	829,861
<b>Net Assets, Beginning of Year</b>	4,363,919	3,534,058
<b>Net Assets, Ending of Year</b>	\$ 8,607,182	\$ 4,363,919

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The Petersburg Library Foundation, Inc.  
Statement of Cash Flows  
Twelve Months Ended December 31, 2013 & December 31, 2012

	<u>Twelve Months</u> <u>Ended 12/31/2013</u>	<u>Twelve Months</u> <u>Ended 12/31/2012</u>
<b>Cash Flows from Operating Activities:</b>		
Change in Net Assets	\$ 4,243,263	\$ 829,861
Adjustment to reconcile change in net assets to cash provided by operating activities:		
Depreciation	882	820
Non-cash contribution	1,887,850	-
Change in accounts receivable	(7,400)	-
Change in unconditional promises to give	45,875	(159,921)
Change in prepaid expenses	-	375
Change in accounts payable	(1,179,447)	1,207,853
Change in accrued expenses	(82)	154
Total Adjustments	<u>747,678</u>	<u>1,049,281</u>
Net Cash Used in Operating Activities	4,990,941	1,879,142
<b>Cash Flows from Investing Activities:</b>		
Costs for New Library Building	116,435	(3,038,106)
Cost of office equipment	-	(619)
Transfer of Land to PPL	343,700	-
Transfer of Capital improvements to PPL	4,101,113	-
Cost of donated capital improvements transferred	(1,887,850)	-
Deposit - New Market Tax Credit	75,000	(75,000)
Acquisition Costs - Corporation	68,662	(68,662)
Loan - Petersburg Library Investment	(8,879,525)	-
Net cash provided (used) by investing activities	<u>(6,062,465)</u>	<u>(3,182,387)</u>
<b>Cash Flows from Financing Activities:</b>		
New Borrowings		
Long-term	1,345,873	-
Net Cash provided (used) by financing activities	<u>1,345,873</u>	<u>-</u>
Net Change in Cash	274,349	(1,303,245)
<b>Cash, Beginning of Year</b>	<u>101,527</u>	<u>1,404,772</u>
<b>Cash, End of Year</b>	<u>\$ 375,877</u>	<u>\$ 101,527</u>
<b>Supplementary Information:</b>		
	<u>12/31/2013</u>	<u>12/31/2012</u>
Interest paid	68,049	-
Income taxes paid	-	-

The Auditor's report and accompanying notes are an integral part of these statements

The Petersburg Library Foundation, Inc.  
Statement of Functional Expenses  
Twelve Months Ended December 31, 2013

	Programs				Support Services			Total
	Capital Campaign	Construction	Literature	Total Programs	General & Administrative	Total Support Services		
Advertising	\$ 1,537	\$ -	\$ -	\$ 1,537	\$ -	\$ -	\$ -	\$ 1,537
Bank charges	-	507	15	522	-	-	-	522
Contributions	-	1,887,850	-	1,887,850	-	-	-	1,887,850
Depreciation	-	-	-	-	882	882	882	882
Insurance expense	-	-	-	-	1,450	1,450	1,450	1,450
Interest expense	74,969	-	-	74,969	-	-	-	74,969
Licenses and permits	-	-	-	-	450	450	450	450
Miscellaneous	-	284	-	284	5,234	5,234	5,234	5,518
Office supplies	605	15	-	620	144	144	144	764
Other direct program costs	35	17,871	-	17,906	-	-	-	17,906
Outside services	-	2,108	-	2,108	7,500	7,500	7,500	9,608
Payroll taxes	7,478	-	-	7,478	-	-	-	7,478
Postage and delivery	1,989	-	-	1,989	20	20	20	2,009
Real estate taxes	-	-	-	-	388	388	388	388
Salaries and benefits	101,419	-	-	101,419	-	-	-	101,419
	<u>\$ 188,032</u>	<u>\$ 1,908,635</u>	<u>\$ 15</u>	<u>\$ 2,096,682</u>	<u>\$ 16,068</u>	<u>\$ 16,068</u>	<u>\$ 16,068</u>	<u>\$ 2,112,750</u>

The Auditor's report and accompanying notes are an integral part of these statements

The Petersburg Library Foundation, Inc.  
Statement of Functional Expenses  
Twelve Months Ended December 31, 2012

	Programs				Support Services		Total
	Capital Campaign	Construction	Workforce Development	Total Programs	General & Administrative	Total Support Services	
Advertising	\$ 20,441	\$ -	\$ -	\$ 20,441	\$ -	\$ -	\$ 20,441
Bank charges	274	35	-	309	-	-	309
Depreciation	-	-	-	-	820	820	820
Dues & Subscriptions	922	-	-	922	-	-	922
Insurance expense	-	-	-	-	1,859	1,859	1,859
Licenses and permits	-	-	-	-	275	275	275
Miscellaneous	-	771	-	771	4,244	4,244	5,015
Office supplies	1,020	8	-	1,028	7	7	1,035
Other direct program costs	16,643	-	50,000	66,643	-	-	66,643
Outside services	-	-	-	-	7,070	7,070	7,070
Payroll taxes	7,471	-	-	7,471	-	-	7,471
Postage and delivery	2,258	-	-	2,258	-	-	2,258
Real estate taxes	-	-	-	-	1,553	1,553	1,553
Salaries and benefits	100,342	-	-	100,342	-	-	100,342
	<u>\$ 149,372</u>	<u>\$ 814</u>	<u>\$ 50,000</u>	<u>\$ 200,186</u>	<u>\$ 15,828</u>	<u>\$ 15,828</u>	<u>\$ 216,014</u>

The Auditor's report and accompanying notes are an integral part of these statements



## **The Petersburg Library Foundation, Inc.**

### **Notes to the Financial Statements**

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Organization and Nature of Activities**

The Petersburg Library Foundation, Inc. (the "Foundation"), was formed "to provide financial support for the purchase, construction and operation of a new library for the City of Petersburg. The Foundation's support comes primarily from grants and individual donors' contributions. The Foundation was incorporated on September 10, 2003.

The Foundation is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

##### **Public Support and Revenue**

Contributions are generally available for unrestricted use in the related campaign year unless specifically restricted by the donor. Unconditional promises to give are recorded when the pledge is received. Unconditional promises to give which are due in the next year are reflected as current promises to give and are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reflected as long-term promises to give and are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts. Management periodically reviews the outstanding promises to give, and uses the direct write-off method to remove uncollectible amounts.

Grants and other contributions 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 the purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

##### **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

##### **Cash and Cash Equivalents**

The Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

The Foundation's cash deposits exceeded the Federal Deposit Insurance Corporation limits at various times during the fiscal year ended December 31, 2013. As of December 31, 2013 and 2012, the balance on deposit at a single financial institution was \$217,319 and \$97,262, respectively. The Federal Deposit Insurance Corporation insures deposits up to \$250,000.

**The Petersburg Library Foundation, Inc.**  
**Notes to the Financial Statements**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Capital Assets**

Assets with an estimated useful life exceeding one year are capitalized as property and equipment. Property and equipment are recorded at cost, or at fair market value for donated assets, and depreciated over the estimated useful life of each asset.

Depreciation is computed using the straight-line method over three to forty years.

**Building and Improvements**

Costs that clearly relate to the building site of the new public library are capitalized. Costs are allocated to project components by the specific identification method whenever possible. Otherwise, acquisition costs are allocated based on their relative fair value before development, and development costs are allocated based on their relative sales value.

**Notes and Mortgage Notes Receivable**

Notes and mortgage notes receivable represent funds advanced to Petersburg Library Investment Fund LLC. Loans are stated at unpaid principal balances. The loans are collateralized by a first mortgage on the library property and a title policy is required showing the Foundation as the valid first lien on the property. Certain insurance coverage is required and the policies must name the Foundation as additional insured.

The interest rate is one percent (1.0000%) per annum. Interest on the loan is recognized over the term of the loan and is calculated using the interest method on principal amounts outstanding. Since the loan is to a related organization and collectability is not considered in doubt, no allowance for loan losses is calculated. Payments from the first payment in April 2013 through December 2020 are for interest only. Beginning January 2021, payments are to be made up of interest and principal.

**Advertising Costs**

The Foundation's policy is to expense advertising costs when incurred.

**The Petersburg Library Foundation, Inc.**  
**Notes to the Financial Statements**

**NOTE 2: UNCONDITIONAL PROMISES TO GIVE**

Unconditional promises to give consist of the following at December 31, 2013, and December 31, 2012:

	<u>2013</u>	<u>2012</u>
Receivable in less than one year	\$ 522,103	\$ 658,869
Receivable in one to five years	227,215	135,628
Receivable in more than five years	-	-
Total unconditional promises to give	<u>749,318</u>	<u>794,497</u>
Discount to net present value	<u>(11,545)</u>	<u>(10,849)</u>
 Net Pledges receivable	 <u>\$ 737,773</u>	 <u>\$ 783,648</u>

Long-term pledges are recognized at fair value, using present value techniques and discount rates that ranged from 2.49% to 1.19%, depending on the stated or anticipated length of the pledge.

The capital campaign pledges receivable are pledged as collateral against the Foundation's bridge loan. See Note 7.

**NOTE 3: CAPITAL ASSETS**

Capital assets consist of the following as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Nondepreciable:		
Construction in Progress	\$ -	\$ 4,217,548
Land	-	343,700
Total	<u>\$ -</u>	<u>\$ 4,561,248</u>

	<u>2013</u>	<u>2012</u>
Depreciable:		
Office equipment	\$ 4,410	\$ 4,410
Less Accumulated Depreciation	<u>(3,192)</u>	<u>(2,310)</u>
Total	<u>\$ 1,218</u>	<u>\$ 2,100</u>

The Foundation acquired the site property for the new library with limitations on property use. For a period of twenty years, the property may not be used for any purpose except (A) a public library and uses relating thereto and/or (B) a public park.

**The Petersburg Library Foundation, Inc.**  
**Notes to the Financial Statements**

**NOTE 4: FINANCING ARRANGEMENTS**

On April 11, 2013, the Petersburg Library Foundation entered into a financing arrangement to take advantage of New Market Tax Credits available for completion of the library building. The Foundation made an in-kind contribution for \$1,887,850 to PPL Development Co., Inc. (a 501(c)(2) corporation). This contribution represents the land and building in construction in progress for the new library. In addition to this, the Foundation made a loan of \$8,879,525 to the Petersburg Library Investment Fund LLC. This loan is secured by a first priority security interest in the Fund's membership interest in the two subsidiary Community Development Enterprise Investments (CDE) including the borrowers share of dividends and distributions of assets. The loan of \$8,879,525 carries an interest rate of one percent (1%) per annum with the first seven years payments being interest only. Beginning with the January 2021 payment, the payments are to be principal and interest in equal amounts to payoff the balance upon maturity, August 30, 2037.

**NOTE 5: TEMPORARILY RESTRICTED NET ASSETS**

The Foundation has received temporarily restricted net assets to support its programs. The activity associated with these temporarily restricted net assets is as follows:

	<u>2013</u>	<u>2012</u>
Opening balance, temporarily restricted net assets	\$ 43,781	\$ 1,138,288
Add restricted grant to building fund	122,679	15,000
Add restricted workforce development grant	-	-
Add restricted contribution to building fund	-	330,690
Add restricted contribution for literature program	-	-
Add grant for operations support	<u>55,590</u>	<u>-</u>
Subtotal	222,050	1,483,978
Approved grant expenditures-capital expenditures		
Demolition	-	-
Capitalized construction costs	(148,333)	(1,389,383)
Champion Reader transfer	-	-
Literature program cost	(15)	-
Construction costs	(17,116)	(814)
Workforce Development costs	-	(50,000)
Operating Costs	<u>(55,590)</u>	<u>-</u>
Ending balance, temporarily restricted net assets	<u>\$ 996</u>	<u>\$ 43,781</u>

**The Petersburg Library Foundation, Inc.**  
**Notes to the Financial Statements**

**NOTE 5: TEMPORARILY RESTRICTED NET ASSETS (Continued)**

As of December 31, 2013 and 2012, temporarily restricted net assets are composed of the following components:

	Restricted Balance 12/31/13	Restricted Balance 12/31/12
Construction Fund	\$ -	\$ 42,770.00
Literature Fund	996	1,011
	\$ 996	\$ 43,781

**NOTE 6: INVESTMENTS**

Investment revenues are reported net of related investment expenses in the statement of activities. The Foundation received a contribution of shares of stock in 2009 which it sold upon receipt. In 2013 there were no stock transactions.

**NOTE 7: SPECIAL BORROWING ARRANGEMENTS**

On April 11, 2013, the Foundation obtained a bridge loan to help cover construction costs. In connection with obtaining the loan, the Foundation set up and incorporated PPL Development Co., Inc. (a 501(c)(2) corporation) and transferred the building project and ownership to this Corporation. The bridge loan with Local Initiatives Support Corporation ("LISC") has an interest rate of six percent per annum. Each month after closing, a principal payment is due based on the aggregate of proceeds from the capital campaign received during the prior month. The entire note is due within three years. The loan is collateralized by the assets of the Foundation and future contributions and donations to the Foundation. The Foundation has also pledged to LISC a first priority interest in the Note Receivable of \$8,879,525 from Petersburg Library Investment Fund, LLC. The bridge loan is personally guaranteed by a board member.

In accordance with the bridge loan agreement, the Foundation entered into two Account Control Agreements granting the Lender a security interest in and lien upon all rights of Borrower with respect to two separate deposit accounts established at the funding of the bridge loan. The Account Control Agreements grant control of the accounts to the lender.

**NOTE 8: FUNCTIONAL ALLOCATION OF EXPENSES**

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

## **The Petersburg Library Foundation, Inc.**

### **Notes to the Financial Statements**

#### **NOTE 9: COMMITMENTS**

On April 11, 2013, Petersburg Library Foundation entered into a lease agreement with PPL Development Co., Inc. to rent an approximately 42,160 square foot building (new library) located at 201 W. Washington Street in City of Petersburg, Virginia for a period beginning at completion of the library building and ending on December 31, 2043. Annual base rent owed to PPL Development Co., Inc. will be \$93,000 per annum for 2014 through 2019.

On April 11, 2013, the City of Petersburg entered into a sublease agreement with the Petersburg Library Foundation to rent the building (new library) located at 201 W. Washington Street, in the City of Petersburg, Virginia for period or lease term beginning with completion of the library and ending on December 31, 2033. Base rent to be collected by the Foundation will be \$96,000 per annum.

#### **NOTE 10: RELATED PARTY TRANSACTIONS**

The Foundation purchases life insurance for its employee through an insurance agent who is also a member of the Board of Directors of the Foundation and an Officer. The Foundation also has a brokerage account with the same member of the Board of Directors. The purpose of this account is to sell securities when the Foundation receives them as a donation.

The Foundation paid out the Workforce Development grant funds to an organization tasked with providing the job search resources and services according to the grant. This organization has a board member who serves on the Board of Directors of the Foundation as well.

Members of the Board of Directors have made donations to the Foundation to assist with its capital campaign. Pledges by board members to the Foundation in 2013 and 2012 were \$60,928 and \$4,588, respectively.

Three members of the Board of Directors of the Foundation also serve as Board Members of PPL Development Co., Inc., a 501(c)(2) corporation.

#### **NOTE 11: CONCENTRATION OF SUPPLIERS**

The Petersburg Library Foundation engaged an architect, an engineering firm, and attorney to provide a substantial amount of services for the new Library building project. The Foundation paid \$1,070,098 in 2013 and \$1,770,373 in 2012, respectively to the three vendors.

#### **NOTE 12: FAIR VALUE OF FINANCIAL INSTRUMENTS**

Generally accepted accounting principles require disclosures of an estimate of fair value of certain financial instruments. The Foundations' short term financial instruments are cash, donations receivable, and accounts payable. For these instruments, the carrying value approximates fair value.

**The Petersburg Library Foundation, Inc.**  
**Notes to the Financial Statements**

**NOTE 13: CONDITIONAL PROMISE TO GIVE**

In March 2012, the Foundation received a \$1,000,000 promise from a donor that required completion of the new library and issuance of a certificate of occupancy before payment would be made. The donor did advance \$150,000 of the \$1,000,000 donation in 2012 and agreed to a schedule of \$516,666 to be paid in 2013. The financial statements do not reflect the remaining \$333,334 promise to give, since the contingency has not been met.

**NOTE 14: SUBSEQUENT EVENTS**

On April 26, 2014, the Library was able to move into its new building.

Subsequent events were evaluated through the date that the financial statements were available to be issued which was May 8, 2014.