

THE PETERSBURG LIBRARY FOUNDATION, INC.

FINANCIAL STATEMENTS

For the Years Ended

December 31, 2012 & December 31, 2011

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Stephen M. Ragland, Ltd.

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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, 2012 and 2011, 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

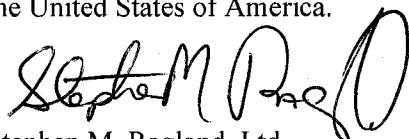
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, 2012 and 2011, 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.
July 16, 2013

The Petersburg Library Foundation, Inc.
Statement of Financial Position
as of December 31, 2012 & December 31, 2011

ASSETS		
	12/31/2012	12/31/2011
Current Assets:		
Cash and cash equivalents	\$ 101,527	\$ 1,404,772
Prepaid Expenses	-	375
Unconditional promises to give	658,869	498,608
Total Current Assets	760,396	1,903,755
Capital Assets:		
Buildings and improvements	-	-
Construction in progress	4,217,548	1,179,443
Office equipment	4,410	3,791
Land	343,700	343,700
Less: accumulated depreciation	(2,310)	(1,490)
Total Capital Assets	4,563,348	1,525,444
Other Assets:		
Unconditional promises to give	124,779	125,119
Deposit - New Market Tax Credit	75,000	-
Acquisition Costs - Corporation	68,662	-
Total Other Assets	268,441	125,119
Total Assets	\$ 5,592,185	\$ 3,554,318

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 1,223,200	\$ 15,347
Accrued salaries payable	4,707	4,564
Payroll taxes payable	360	349
Notes payable-current portion	-	-
Total Current Liabilities	1,228,267	20,260
Net Assets:		
Net Assets - unrestricted	4,320,137	2,395,770
Net Assets - temporarily restricted	43,781	1,138,288
Total Net Assets	4,363,918	3,534,058
Total Liabilities and Net Assets	\$ 5,592,185	\$ 3,554,318

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, 2012 & December 31, 2011

	<u>Twelve Months Ended 12/31/12</u>	<u>Twelve Months Ended 12/31/11</u>
UNRESTRICTED NET ASSETS		
Support and Revenue		
Donations	\$ 697,521	\$ 565,685
Interest income	2,664	6,693
Total Support and Revenue	<u>700,185</u>	<u>572,378</u>
Net assets released from donor restrictions	1,440,196	147,622
Total Unrestricted Support and Revenue	<u>2,140,381</u>	<u>720,000</u>
Expenses Paid		
Program Services		
Capital Campaign	149,372	134,672
Construction	814	
Literature Fund	-	376
Workforce Development	50,000	-
Total Program Services	<u>200,186</u>	<u>135,048</u>
Supporting Services		
General and administrative expenses	15,828	15,493
Total Supporting Services	<u>15,828</u>	<u>15,493</u>
Total Expenses	<u>216,014</u>	<u>150,541</u>
 Increase (decrease) in unrestricted net assets	 1,924,367	 569,459
TEMPORARILY RESTRICTED NET ASSETS		
Restricted grants	15,000	350,000
Restricted donations	330,690	30,272
Net assets released from restrictions	(1,440,196)	(147,622)
Change in Temporarily Restricted Net Assets	<u>(1,094,506)</u>	<u>232,650</u>
 Total increase (decrease) in Net Assets	 829,861	 802,109
 Net Assets, Beginning of Year	 <u>3,534,058</u>	 <u>2,731,949</u>
 Net Assets, Ending of Year	 <u>\$ 4,363,919</u>	 <u>\$ 3,534,058</u>

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

The Petersburg Library Foundation, Inc.
Statement of Cash Flows
Twelve Months Ended December 31, 2012 & December 31, 2011

	<u>Twelve Months Ended 12/31/2012</u>	<u>Twelve Months Ended 12/31/2011</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 829,861	\$ 802,109
Adjustment to reconcile change in net assets to cash provided by operating activities:		
Depreciation	820	758
Change in accounts receivable	-	77
Change in unconditional promises to give	(159,921)	(308,890)
Change in prepaid expenses	375	(375)
Change in accounts payable	1,207,853	(6,543)
Change in accrued expenses	154	(7)
Total Adjustments	<u>1,049,281</u>	<u>(314,980)</u>
Net Cash Used in Operating Activities	1,879,142	487,129
Cash Flows from Investing Activities:		
Costs for New Library Building	(3,038,106)	(110,669)
Cost of office equipment	(619)	-
Deposit - New Market Tax Credit	(75,000)	
Acquisition Costs - Corporation	(68,662)	
Net cash provided (used) by investing activities	<u>(3,182,387)</u>	<u>(110,669)</u>
Cash Flows from Financing Activities:		
Repayments		
Short-term	-	(70,702)
Net Cash provided (used) by financing activities	<u>-</u>	<u>(70,702)</u>
Net Change in Cash	(1,303,245)	305,758
Cash, Beginning of Year	<u>1,404,772</u>	<u>1,099,014</u>
Cash, End of Year	<u>\$ 101,527</u>	<u>\$ 1,404,772</u>
Supplementary Information:		
	<u>12/31/2012</u>	<u>12/31/2011</u>
Interest paid	-	-
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, 2012

	Programs				Support Services			Total
	Capital	Construction	Workforce Development	Total Programs	General & Administrative	Services	Total Support	
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>\$ 15,828</u>	<u>\$ 216,014</u>

The Petersburg Library Foundation, Inc.
Statement of Functional Expenses
Twelve Months Ended December 31, 2011

	Programs			Support Services			Total
	Capital		Literature	General &		Total Support	
	Campaign	Fund		Administrative	Services		
Advertising	\$ 26,733	\$ -	\$ 26,733	\$ -	\$ -	\$ -	\$ 26,733
Bank charges	-	-	-	5	5	-	5
Depreciation	-	-	-	758	758	-	758
Dues & Subscriptions	582	-	582	-	-	-	582
Insurance expense	-	-	-	1,215	1,215	-	1,215
Licenses and permits	-	-	-	225	225	-	225
Miscellaneous	-	-	-	4,568	4,568	-	4,568
Office supplies	1,127	-	1,127	700	700	-	1,827
Other direct program costs	241	376	617	-	-	-	617
Outside services	-	-	-	6,800	6,800	-	6,800
Payroll taxes	7,441	-	7,441	-	-	-	7,441
Postage and delivery	493	-	493	-	-	-	493
Real estate taxes	-	-	-	1,222	1,222	-	1,222
Salaries and benefits	98,055	-	98,055	-	-	-	98,055
	<u>\$ 134,672</u>	<u>\$ 376</u>	<u>\$ 135,048</u>	<u>\$ 15,493</u>	<u>\$ 15,493</u>	<u>\$ 15,493</u>	<u>\$ 150,541</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, 2012. As of December 31, 2012 and 2011, the balance on deposit at a single financial institution was \$97,262 and \$865,147, 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.

Advertising Costs

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

NOTE 2: UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following at December 31, 2012, and December 31, 2011:

	<u>2012</u>	<u>2011</u>
Receivable in less than one year	\$ 658,869	\$ 498,608
Receivable in one to five years	135,628	139,190
Receivable in more than five years	-	500
Total unconditional promises to give	<u>794,497</u>	<u>638,298</u>
Discount to net present value	<u>(10,849)</u>	<u>(14,571)</u>
 Net Pledges receivable	 <u>\$ 783,648</u>	 <u>\$ 623,727</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.

NOTE 3: CAPITAL ASSETS

Capital assets consist of the following as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Nondepreciable:		
Construction in Progress	\$ 4,217,548	\$ 1,179,443
Land	<u>343,700</u>	<u>343,700</u>
Total	<u>\$ 4,561,248</u>	<u>\$ 1,523,143</u>

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

NOTE 3: CAPITAL ASSETS (continued)

	<u>2012</u>	<u>2011</u>
Depreciable:		
Office equipment	\$ 4,410	\$ 3,791
Less Accumulated Depreciation	<u>(2,310)</u>	<u>(1,490)</u>
Total	<u>\$ 2,100</u>	<u>\$ 2,301</u>

The Foundation acquired the site property for the new library with limitations on property use. The property cannot be sold or otherwise conveyed for a period of two years and one month, beginning December 15, 2006. In addition, 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.

NOTE 4: 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>2012</u>	<u>2011</u>
Opening balance, temporarily restricted net assets	\$ 1,138,288	\$ 905,638
Add restricted grant to building fund	15,000	330,000
Add restricted workforce development grant	-	50,000
Add restricted contribution to building fund	330,690	
Add restricted contribution for literature program	-	272
Add grant for Salary support	-	-
Subtotal	<u>1,483,978</u>	<u>1,285,910</u>
Approved grant expenditures-capital expenditures		
Demolition	-	-
Capitalized construction costs	(1,389,383)	(132,414)
Champion Reader transfer	-	(6,386)
Literature program cost	-	(376)
Construction costs	(814)	
Workforce Development costs	(50,000)	
Capital campaign costs	-	(8,446)
Ending balance, temporarily restricted net assets	<u>\$ 43,781</u>	<u>\$ 1,138,288</u>

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

NOTE 4: TEMPORARILY RESTRICTED NET ASSETS (continued)

As of December 31, 2012 and 2011, temporarily restricted net assets are composed of the following components:

	Restricted Balance 12/31/12	Restricted Balance 12/31/11
Capacity Fund	\$ -	\$ -
Capital Campaign	-	-
Construction Fund	42,770	1,087,277
Workforce Development	-	50,000
Literature Fund	1,011	1,011
Champion Reader Fund	-	-
	\$ 43,781	\$ 1,138,288

NOTE 5: 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. The net proceeds less the fair market value on receipt resulted in a loss of \$69. In 2012 there were no stock transactions.

NOTE 6: 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.

NOTE 7: 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.

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

NOTE 7: RELATED PARTY TRANSACTIONS (continued)

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 2012 and 2011 were \$4,588 and \$3,191, respectively.

NOTE 8: CONCENTRATION OF SUPPLIERS

The Petersburg Library Foundation engaged an architect, an engineering firm, and builder to provide a substantial amount of services for the new Library building project. The Foundation paid \$1,770,373 in 2012 and \$127,789 in 2011, respectively to the three vendors.

NOTE 9: LIQUIDITY

The Foundation has experienced difficulty in obtaining sufficient funds to provide working capital and construction funds. In response to this, management obtained an advance of \$860,000 in January 2013 from the City of Petersburg on its contingent grant and a \$150,000 advance from a foundation along with negotiating a new payment schedule on its \$1,000,000 contingent pledge. Additionally, the Foundation entered into a bridge loan agreement and applied for and received approval for the New Market Tax Credit to construct the new library building.

NOTE 10: 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.

NOTE 11: 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.

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

NOTE 12: SUBSEQUENT EVENTS

In October of 2009, the Foundation entered into a memorandum agreement with the City of Petersburg, a Virginia municipality, in which the City agrees to contribute \$5,000,000 in proceeds of general obligation bonds to the Foundation for the construction of the new library. The agreement stipulates that the City will not issue the bonds until the Foundation has obtained a combination of cash and firm commitments totaling 80% of the new library's projected cost as of the date of the memorandum agreement, and the Foundation has received a firm commitment for the loan of \$2,300,000. Since this arrangement is set forth as a memorandum agreement, it is not a legally binding contract, and therefore is subject to change.

On April 11th, 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. This transaction allowed the Foundation to apply for and obtain a New Market Tax Credit investment for the construction of the new library building. The Foundation negotiated a revised memorandum of agreement with the City of Petersburg and the City agreed to honor its commitment to provide \$5 million. Additionally, the City made an \$860,000 advance payment in January 2013 to allow construction to continue on the project.

Subsequent events were evaluated through the date that the financial statements were available to be issued which was July 16, 2013.