



KENNEBUNK FREE LIBRARY ASSOCIATION

REVIEW OF FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

KENNEBUNK FREE LIBRARY ASSOCIATION

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

November 4, 2016

To the Board of Trustees
Kennebunk Free Library Association
Kennebunk, Maine

We have reviewed the accompanying financial statements of Kennebunk Free Library Association (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

The supplementary information included in schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information is the representation of management. We have reviewed the information and, based on our review, we are not aware of any material modifications that should be made to the information in order for it to be in accordance with accounting principles generally accepted in the United States of America. We have not audited the information and, accordingly, do not express an opinion on such information.

Certified Public Accountants
Kennebunk, Maine

KENNEBUNK FREE LIBRARY ASSOCIATION

STATEMENT OF FINANCIAL POSITION

(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 126,693	\$ 21,299	\$ -	\$ 147,992
Accounts receivable	100	-	-	100
Investments	1,070,222	-	24,887	1,095,109
Prepaid expenses	1,595	-	-	1,595
Property and equipment, net	909,950	-	-	909,950
Total Assets	<u><u>\$ 2,108,560</u></u>	<u><u>\$ 21,299</u></u>	<u><u>\$ 24,887</u></u>	<u><u>\$2,154,746</u></u>
LIABILITIES				
Accrued expenses	\$ 8,286	\$ -	\$ -	\$ 8,286
Deferred income	25,729	-	-	25,729
Total Liabilities	<u><u>34,015</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>34,015</u></u>
NET ASSETS				
Unrestricted:				
Board designated funds	1,077,790	-	-	1,077,790
Board designated fixed asset fund	909,950	-	-	909,950
Undesignated net assets	86,805	-	-	86,805
Temporarily restricted	-	21,299	-	21,299
Permanently restricted	-	-	24,887	24,887
Total Net Assets	<u><u>2,074,545</u></u>	<u><u>21,299</u></u>	<u><u>24,887</u></u>	<u><u>2,120,731</u></u>
Total Liabilities and Net Assets	<u><u>\$ 2,108,560</u></u>	<u><u>\$ 21,299</u></u>	<u><u>\$ 24,887</u></u>	<u><u>\$2,154,746</u></u>

See Notes to Financial Statements

KENNEBUNK FREE LIBRARY ASSOCIATION

STATEMENT OF ACTIVITIES

(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

YEAR ENDED JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Town of Kennebunk contribution	\$ 542,960	\$ -	\$ -	\$ 542,960
Town of Arundel contribution	12,000	-	-	12,000
Annual appeal	46,046	-	-	46,046
Other contributions and bequests	3,342	19,807	-	23,149
Bequests	22,610	-	-	22,610
Fines and fees	15,475	-	-	15,475
Fundraising and special events	55,531	-	-	55,531
Interest and dividends	32,139	-	-	32,139
Gains (losses) on investments	(3,637)	-	-	(3,637)
Café income	263	-	-	263
Net assets released from restrictions	11,162	(11,162)	-	-
Total Support and Revenue	737,891	8,645	-	746,536
EXPENSES				
Program services	659,697	-	-	659,697
Management and general	96,569	-	-	96,569
Fundraising and special events	74,204	-	-	74,204
Total Expenses	830,470	-	-	830,470
OTHER INCOME				
Other income	38,995	-	-	38,995
Total Other Income	38,995	-	-	38,995
CHANGE IN NET ASSETS	(53,584)	8,645	-	(44,939)
NET ASSETS, BEGINNING OF YEAR	2,128,129	12,654	24,887	2,165,670
NET ASSETS, END OF YEAR	\$ 2,074,545	\$ 21,299	\$ 24,887	\$ 2,120,731

See Notes to Financial Statements

KENNEBUNK FREE LIBRARY ASSOCIATION

STATEMENT OF CASH FLOWS

(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$	(44,939)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation		84,569
(Gains) losses on investments		3,637
Changes in operating assets and liabilities:		
Prepaid expenses		1,883
Accrued expenses		(11,436)
Deferred income		1,832
		<hr/>
Net cash provided by (used in) operating activities		35,546

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of investments		36,464
Purchases of investments		(6,477)
		<hr/>
Net cash provided by (used in) investing activities		29,987

NET INCREASE (DECREASE) IN CASH 65,533

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

82,459

CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 147,992

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for interest

\$ -

Cash paid during the year for income taxes

\$ -

SCHEDULE OF NONCASH INVESTING AND FINANCING TRANSACTIONS:

There were no noncash investing and financing activities during the year ended June 30, 2016.

See Notes to Financial Statements

KENNEBUNK FREE LIBRARY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

YEAR ENDED JUNE 30, 2016

Note 1 - Summary of Significant Accounting Policies

Nature of Activities - The Kennebunk Free Library Association (the "Association") is a not-for-profit Maine corporation organized April 24, 1882. The Association strives to meet the educational and recreational needs of the Town of Kennebunk and its surrounding communities. The Association embraces its responsibility to develop and to promote the use of resources that contribute to literacy and life-long learning. The Association's principal sources of revenue are contributions from the Town of Kennebunk and an annual appeal, fines and fees, special events and investment income.

Basis of Accounting - The financial statements of the Association have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Basis of Presentation - Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards, *Financial Statements of Not-for-Profit Organizations*. Under this statement, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. A description of the three net asset categories is as follows:

Unrestricted net assets include the following:

Undesignated Net Assets represent unrestricted accumulated earnings of the Association that have not been designated by the Association's Board of Trustees for any particular purpose.

Designated Net Assets represent funds that have been set aside by the Association's Board and designated to be used for various purposes.

Temporarily restricted net assets include accumulated donations for which donor imposed restrictions have not been met. These assets are released from restrictions as expenditures are made in accordance with the restrictions called for under the terms of the original donations.

Permanently restricted net assets include accumulated donations which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with those restrictions imposed by the donor.

Cash and Cash Equivalents - For purposes of the Statement of Cash Flows, the Association considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable - Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management considers accounts receivable to be delinquent based on the date of unpaid invoices. 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 are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a reduction to accounts receivable.

Donated Assets - Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

Donated Services - Donated services are reflected in the financial statements at the fair value of the services received only if the services (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. See Note 8.

KENNEBUNK FREE LIBRARY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

YEAR ENDED JUNE 30, 2016

Note 1 - Summary of Significant Accounting Policies (continued)

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

Expense Allocation - The costs of providing various programs and other 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.

Income Tax Status - The Association is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Association qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

The federal tax return of the Association is subject to examination, generally for three years after it was filed.

Investments - The Association carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

Promises to Give - Unconditional promises to give are recorded as received. Unconditional promises to give due in subsequent years are recorded at their present value, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Concentrations of Credit Risk - The Association maintains bank balances at two banks and a brokerage house, and deposits are insured by the FDIC and SIPC, respectively. At times, the cash balances may exceed insured limits.

Other Concentrations - The Association's principal source of revenue consists of appropriations from the Town of Kennebunk which represented 76% of the Association's total revenue for the year ended June 30, 2016.

Property and Equipment - Purchased land, buildings, furnishings and equipment are carried at cost. Contributed assets are carried at their fair market value at the time of the gift. Major additions are included in the property accounts while maintenance and repairs which do not improve or extend the life of the assets are expensed currently. Depreciation is computed using the straight-line method of depreciation over the assets' estimated service lives. Library books and other resource materials are not reported as an asset, but are reported as an expense when acquired.

Recognition of Donor-Restricted Contributions - Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 Statement of Activities as net assets released from restrictions. Restricted contributions whose restrictions are met in the same reporting period are recorded as unrestricted contributions.

KENNEBUNK FREE LIBRARY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

YEAR ENDED JUNE 30, 2016

Note 2 - Cash

Cash is available for the following purposes as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Unrestricted:			
Board designated funds	\$ 7,568	\$ -	\$ 7,568
Board designated memorial fund	100	-	100
Undesignated	119,025	-	119,025
Temporarily restricted	<u>-</u>	<u>21,299</u>	<u>21,299</u>
Total	\$ <u>126,693</u>	\$ <u>21,299</u>	\$ <u>147,992</u>

Note 3 - Fair Values of Assets

Effective January 1, 2008, the Association adopted Statement of Financial Accounting Standards, *Fair Value Measurements*, which provides a framework for measuring fair value under GAAP. This standard defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This standard requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. This standard also established a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

There are three general valuation techniques that may be used to measure fair value, as described below:

- 1) Market approach - Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other resources;
- 2) Cost approach - Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and
- 3) Income approach - Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques, and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

<u>Description</u>	<u>Fair Values</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Equity mutual funds	\$ 659,782	\$ 659,782	\$ -	\$ -
Fixed income mutual funds	435,327	435,327		
Cash - money market fund	<u>7,568</u>	<u>7,568</u>	<u>-</u>	<u>-</u>
Total	\$ <u>1,102,677</u>	\$ <u>1,102,677</u>	\$ <u>-</u>	\$ <u>-</u>

Fair value for investments is determined by reference to quoted market prices and other relevant information generated by market transactions.

KENNEBUNK FREE LIBRARY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

YEAR ENDED JUNE 30, 2016

Note 4 - Investments

Investments as of June 30, 2016, are summarized as follows:

		<u>Cost</u>		<u>Fair Value</u>
Equity mutual funds	\$	566,085	\$	659,782
Fixed income mutual funds		<u>433,149</u>		<u>435,327</u>
 Total	 \$	 <u>999,234</u>	 \$	 <u>1,095,109</u>

The following schedule summarizes the investment return and its classification in the Statement of Activities for the year ended June 30, 2016:

		<u>Unrestricted</u>
Investment income	\$	32,139
Net realized and unrealized gains		<u>(3,637)</u>
 Total investment return	 \$	 <u>28,502</u>

Note 5 - Property and Equipment

Property and equipment consists of the following at June 30, 2016:

Land	\$	100,338
Buildings		2,124,519
Furnishings		95,300
Equipment		<u>75,111</u>
		2,395,268
Less accumulated depreciation		<u>1,485,318</u>
 Total property and equipment, net	 \$	 <u>909,950</u>

Note 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

Program and books	\$	20,168
Other		171
VHS		<u>960</u>
 Total	 \$	 <u>21,299</u>

KENNEBUNK FREE LIBRARY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

YEAR ENDED JUNE 30, 2016

Note 6 - Temporarily Restricted Net Assets (continued)

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

Purpose restrictions accomplished:

Program and Books	\$	9,707
Other		<u>1,455</u>
Total	\$	<u>11,162</u>

Note 7 - Endowment Funds

In January 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* ("the Staff Position"). The Staff Position provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The Staff Position also requires additional disclosures about an organization's endowment fund (both donor restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of Maine enacted UPMIFA in 2009, the provisions of which apply to endowment funds existing on or established after that date. The Association adopted the Staff Position on February 28, 2012. The purpose of the Association's Endowment Fund is to lessen the burden on the taxpayers and fund the Association's operating and capital expenditures. The Fund is managed with a total return orientation that focuses on the production of income as well as maintaining and growing the real value of the endowment and subsequent distributions. The target asset allocation of the endowment is 60% equity securities, 35% fixed-income securities and 5% cash and cash equivalents. The spending policy of the Endowment Fund is to allocate no less than 3% and no more than 5% of the Fund's three year rolling average to the following year's budgeted revenue to support operating and capital expenditures.

As of June 30, 2016, the Association had endowment funds totaling \$1,102,677 consisting of both donor-restricted funds and funds designated by the Board of Trustees to function as endowment. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Association has interpreted the Maine Prudent Management of Institutional Funds Act (MPMIFA) 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 Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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.

As of June 30, 2016, the Board of Trustees of the Association had designated \$1,077,790 of unrestricted net assets as a general endowment fund to support the mission of the Association. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

KENNEBUNK FREE LIBRARY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

YEAR ENDED JUNE 30, 2016

Note 7 - Endowment Funds (continued)

Endowment net asset composition by fund as of June 30, 2016 is as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-designated endowment funds	\$ -	\$ 24,887	\$ 24,887
Board-designated endowment funds	<u>1,077,790</u>	<u>-</u>	<u>1,077,790</u>
Total	\$ <u>1,077,790</u>	\$ <u>24,887</u>	\$ <u>1,102,677</u>

Changes in endowment net assets as of June 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ 1,106,596	\$ 24,887	\$ 1,131,483
Contributions	1,157	-	1,157
Investment income net of fees	27,972	-	27,972
Distributions	(54,298)	-	(54,298)
Investment gains on endowment	(<u>3,637</u>)	<u>-</u>	(<u>3,637</u>)
Total	\$ <u>1,077,790</u>	\$ <u>24,887</u>	\$ <u>1,102,677</u>

Note 8 - Donated Services

A substantial number of volunteers have donated significant amounts of their time in the Association's operations, program services and fundraising activities. This time is not recognized in the financial statements because it does not meet the criteria described in Note 1.

Note 9 - Retirement Plan

The Association has established a defined contribution plan covering all employees who work 10 or more hours per week. The Association contributes 1% of individual participants' compensation to the plan. Total expense for the year ended June 30, 2016, was \$246.

Note 10 - Subsequent Events

Subsequent events have been evaluated by management through November 4, 2016, which is the date the financial statements were available to be issued. There were no material subsequent events at November 4, 2016 that require disclosure in the financial statements.

KENNEBUNK FREE LIBRARY ASSOCIATION

SCHEDULE OF FUNCTIONAL EXPENSES

(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

YEAR ENDED JUNE 30, 2016

	Program Services	Management and General	Fundraising and Special Events	Total
Accounting fees	\$ -	\$ 4,785	\$ -	\$ 4,785
Adult programming	777	-	-	777
Annual appeal	-	-	2,119	2,119
Bank service charges	-	503	-	503
Building repairs and maintenance	38,966	1,009	404	40,379
Café expenses	182	-	-	182
Collection (books, etc.)	65,142	-	-	65,142
Depreciation	81,609	2,114	846	84,569
Equipment repairs	-	3,051	-	3,051
Insurance	4,594	1,390	60	6,044
Investment advisory fees	-	4,068	-	4,068
Juvenile programming	2,706	-	-	2,706
Library technology (computers)	11,664	2,674	2,674	17,012
Maintenance contracts	8,172	212	85	8,469
Medical insurance	26,090	4,463	3,776	34,329
Meetings and conferences	367	367	-	734
Miscellaneous	1,105	2,740	-	3,845
Payroll processing	1,145	196	165	1,506
Payroll taxes	27,670	4,733	4,004	36,407
Postage	2,527	1,261	-	3,788
Professional dues	1,568	475	-	2,043
Promotion	-	922	-	922
Retirement benefit	187	32	27	246
Road race	-	-	4,447	4,447
Salaries and wages	346,577	59,283	50,163	456,023
Snow removal	1,906	49	20	1,975
Special events	-	-	4,927	4,927
Supplies - maintenance	618	95	-	713
Supplies - custodial	1,571	41	16	1,628
Supplies - library and office	4,066	624	-	4,690
Supplies - photocopying	602	92	-	694
Telephone	1,068	458	-	1,526
Utilities	27,536	713	285	28,534
Workers compensation insurance	1,282	219	186	1,687
Total Expenses	<u>\$ 659,697</u>	<u>\$ 96,569</u>	<u>\$ 74,204</u>	<u>\$ 830,470</u>