

FISHERS ISLAND LIBRARY ASSOCIATION
FINANCIAL STATEMENTS
DECEMBER 31, 2017

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FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Fishers Island Library Association

We have audited the accompanying financial statements of Fishers Island Library Association (a nonprofit organization), which comprise the statement of assets, liabilities, and net assets—modified cash basis as of December 31, 2017, and the related statement of support, revenue, and expenses—modified cash basis for the year 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 assets, liabilities, and net assets of Fishers Island Library Association as of December 31, 2017, and its support, revenue, and expenses for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Fishers Island Library Association's December 31, 2016 financial statements and we expressed an unmodified audit opinion on those financial statements in our report dated May 10, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent in all material respects, with the audited financial statements from which it has been derived.

Aldrich, Mulcahy & Associates, LLC

Waterford, CT
February 10, 2018

**FISHERS ISLAND LIBRARY ASSOCIATION
STATEMENT OF ASSETS, LIABILITIES AND
NET ASSETS - MODIFIED CASH BASIS
AS OF DECEMBER 31, 2017
WITH COMPARATIVE TOTALS FOR 2016**

ASSETS	2017	2016
CURRENT ASSETS		
Cash on hand	\$ 228	\$ 228
Cash- checking	238,091	302,884
Pledge receivable	-	51,000
TOTAL CURRENT ASSETS	238,319	354,112
PROPERTY AND EQUIPMENT		
Land	1,000	1,000
Land improvements	15,802	15,802
Building	70,000	70,000
Building improvements	603,920	407,656
Furniture and equipment	69,398	58,693
	760,120	553,151
Less: accumulated depreciation	(285,717)	(261,872)
TOTAL PROPERTY AND EQUIPMENT	474,403	291,279
OTHER ASSETS		
Investments- board designated endowment (note 3)	609,526	479,865
TOTAL ASSETS	\$ 1,322,248	\$ 1,125,256
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued payroll taxes	\$ 3,419	\$ 9,754
NET ASSETS		
Unrestricted		
Board designated (note 4)	609,526	479,865
Undesignated	581,284	447,213
Total unrestricted net assets	1,190,810	927,078
Temporarily restricted (note 7)	123,324	183,729
Permanently restricted (note 5)	4,695	4,695
TOTAL NET ASSETS	1,318,829	1,115,502
TOTAL LIABILITIES AND NET ASSETS	\$ 1,322,248	\$ 1,125,256

See accountant's report and accompanying notes.

FISHERS ISLAND LIBRARY ASSOCIATION
STATEMENT OF REVENUE AND EXPENSES AND CHANGES IN NET ASSETS -
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE TOTALS FOR 2016

SUPPORT AND REVENUE	Unrestricted	Temporarily	Permanently	Totals	
		Restricted	Restricted	2017	2016
Grants	\$ 4,000	\$ 91,483	\$ -	\$ 95,483	\$ -
School district	51,000	-	-	51,000	51,000
Adopt-a-book	130	-	-	130	396
Donations	80,341	55,081	-	135,422	421,445
Interest and dividends	15,393	-	-	15,393	19,568
Library charges and fines	-	-	-	-	193
Local library incentive aid	1,404	-	-	1,404	1,264
Unrealized & realized gain (loss) for year	63,382	-	-	63,382	31,583
Other	15,533	-	-	15,533	45
Released from restriction:					
Purpose restrictions met	206,969	(206,969)	-	-	-
TOTAL SUPPORT AND REVENUE	438,152	(60,405)	-	377,747	525,494
EXPENSES					
Librarian and program salary	50,000	-	-	50,000	47,468
Payroll taxes	3,394	-	-	3,394	3,898
Accounting	9,831	-	-	9,831	8,453
Alarm system	60	-	-	60	270
Bank charges	5,773	-	-	5,773	385
Books	4,977	-	-	4,977	6,047
Depreciation	23,845	-	-	23,845	20,130
Insurance	10,706	-	-	10,706	11,859
Utilities	5,867	-	-	5,867	6,118
Maintenance	14,089	-	-	14,089	11,726
Medical insurance	13,534	-	-	13,534	-
Other	11,624	-	-	11,624	3,794
Pension expense	2,000	-	-	2,000	2,000
Performers	2,526	-	-	2,526	2,057
Periodicals and videos	-	-	-	-	290
Printing	255	-	-	255	849
Capital Campaign	9,820	-	-	9,820	15,922
Special events	-	-	-	-	-
Supplies	2,135	-	-	2,135	3,511
Telephone	3,984	-	-	3,984	2,145
TOTAL EXPENSES	174,420	-	-	174,420	146,922
CHANGE IN NET ASSETS	263,732	(60,405)	-	203,327	378,572
NET ASSETS, BEGINNING	927,078	183,729	4,695	1,115,502	736,930
NET ASSETS, ENDING	\$ 1,190,810	\$ 123,324	\$ 4,695	\$ 1,318,829	\$ 1,115,502

See accountants report and accompanying notes.

**FISHERS ISLAND LIBRARY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose

Fishers Island Library Association serves the Island community by providing literary, informational, cultural and educational enrichment resources and programs throughout the year at the library and other Island venues.

Financial Statement Presentation

The organization reports 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. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Method of Accounting

The Fishers Island Library Association uses the modified cash basis of accounting; consequently, revenues are recognized when received rather than when earned, and expenses and purchases of assets are recognized when cash is disbursed rather than when the obligation is incurred. Modifications to the modified cash basis of accounting include capitalizing land, buildings and equipment, recording depreciation on property and equipment, accruing payroll related liabilities, and recording investments at fair market value.

Income Tax Status

The Fishers Island Library Association is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, and therefore, has no provision for federal or state income taxes. 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.

The Association's Forms 990, Return of Organization Exempt from Income Tax, for the years ending 2014, 2015, and 2016 are subject to examination by the IRS, generally for three years after they were filed.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and support, revenue and expenses during the reporting period. Actual results could differ from those estimates.

Prior Year Comparative Totals

The financial information shown for 2016 in the accompanying financial statements is included to provide a basis for comparison with 2017 and presents summarized totals only. Such total amounts do not include sufficient detail to constitute a presentation in conformity with the modified cash basis of accounting. Accordingly, such amounts should be read in conjunction with the Fishers Island Library Association's financial statements for the year ended December 31, 2016, from which the comparative total amounts were derived.

FISHERS ISLAND LIBRARY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment are carried at cost. Depreciation is provided by the straight-line method over the estimated useful lives of the assets. Repairs and maintenance of building and equipment are charged to expenses as incurred.

Fair Values of Financial Instruments

The Company adopted FASB ASC 820, Fair Value Measurements and Disclosures, for assets and liabilities measured at fair value on a recurring basis. The codification established a common definition for fair value to be applied to existing generally accepted accounting principles that requires the use of fair value measurements, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements.

FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, FASB ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized as follows:

- Level 1—Observable inputs such as quoted market prices in active markets for identical assets or liabilities.
- Level 2—Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3—Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions.
- The carrying values of cash in bank, receivables, accounts payable, and loan payable that are short-term in nature approximate fair value.

Investments

The investment policy establishes an achievable return objective through professional management and sufficient portfolio diversification to minimize volatility and to help assure a reasonable consistency of return. The current long-term return objective is to achieve a total rate of return that is above the median performance of similarly managed funds on a risk-adjusted basis. To satisfy its long-term rate-of-return objectives, the Organization 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 Organization targets a diversified asset allocation by setting a minimum aggregate exposure of 96% in fixed income and a maximum aggregate exposure of 4% in equity-based securities to achieve its long-term return objectives within prudent risk parameters.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a

**FISHERS ISLAND LIBRARY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Revenue and Expenses and Changes in Net Assets - Modified cash basis as net assets released from restrictions.

Subsequent Events

Management has evaluated subsequent events through February 10, 2018, the date which the financial statements were available for issue.

2. PENSION PLAN

The library contributes 5% of each eligible employee's salary to the Teachers Insurance and Annuity Association College Retirement Equities Fund. The librarian was the only eligible participant in 2017. Pension expense for the year ended December 31, 2017 was \$2,000; the year ended December 31, 2016 was \$2,000.

3. INVESTMENTS

The investments with Morgan Stanley are recorded at fair market value, and consist of the following:

	2017		2016	
	Fair Market Value	Cost	Fair Market Value	Cost
Cash equivalents	\$ 59,747	\$ 59,747	\$ 119,614	\$ 119,614
Mutual Funds	179,703	178,453	127,837	126,587
Exchanged Traded & Closed end funds	345,926	297,982	147,108	120,047
Equities-common stock	24,150	33,496	85,306	114,356
Total Investments	\$ 609,526	\$ 569,678	\$ 479,865	\$ 480,604

4. BOARD DESIGNATED NET ASSETS

Board designated net assets at December 31, 2017 consist of \$609,526 in board designated endowment accounts. The Board of Trustees has designated these funds for future use.

5. PERMANENTLY RESTRICTED NET ASSETS

The permanently restricted net assets consist of donations made to the library: \$1,695 in memory of Marilyn Porter and \$3,000 in memory of Rachel and Maxwell Porter. The income earned on the donations is to be used to purchase books for the library.

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purpose or periods.

Future renovations funded by the 2017 capital campaign	\$ 123,324
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**FISHERS ISLAND LIBRARY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
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7. ENDOWMENT FUNDS

The Organization has adopted investment and spending policies, approved by the Board of Directors, for board designated endowment assets that attempt to provide future growth sufficient to offset normal inflation plus reasonable program spending to preserve the constant dollar value and purchasing power of the endowment for future generations. The Organization's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through professional management and sufficient portfolio diversification to minimize volatility and to help assure a reasonable consistency of return. The current long-term objective is to achieve a total rate of return that is above the median performance of similarly managed funds on a risk adjusted basis. The endowment assets have a long term time horizon that runs concurrent with the endurance of the Organization. As such, these funds can assume a time horizon that extends well beyond a normal market cycle. To satisfy its long-term rate-of-return objectives, the Organization 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 Organization targets a diversified asset allocation by investing its assets to achieve its long-term return objectives within prudent risk parameters. The spending policy's objective is to achieve a balance between providing support for the funding of Organization operating needs and to provide a relatively predictable, constant and stable stream of earnings for future use. The value of the Endowment is reviewed periodically at the Board of Directors meetings. The Board Designated Endowment accounts for the entire Investment Account balance which is detailed in Note 3.

Changes in endowment net assets for the year ended December 31, 2017 are as follows:

	<u>Board Designated</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning	\$ 479,865	\$ 4,695	\$ 484,560
Net investment income	15,393	-	15,393
Net realized and unrealized appreciation	63,382	-	63,382
Reimbursement from Operating	50,886		50,886
Expenditures	-	-	-
Endowment net assets, end	<u>\$ 609,526</u>	<u>\$ 4,695</u>	<u>\$ 614,221</u>

8. ALLOCATION OF EXPENSES BY FUNCTION

The expenses as summarized in the statement of revenue and expenses and changes in net assets have been allocated as follows:

	<u>2017</u>	<u>2016</u>
Library services	\$ 111,960	\$ 90,054
Management and general	36,621	26,700
Fundraising	<u>25,839</u>	<u>30,168</u>
	<u>\$ 174,420</u>	<u>\$ 146,922</u>