

SAMUELS LIBRARY, INC.

Front Royal, Virginia

FINANCIAL REPORT

June 30, 2016

C O N T E N T S

	Page
INDEPENDENT AUDITOR'S REPORT	1 and 2
FINANCIAL STATEMENTS	
Statements of financial position	3
Statements of activities	4 and 5
Statements of cash flows	6
Notes to financial statements	7-13

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Samuels Library, Inc.
Front Royal, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Samuels Library, Inc. which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements (collectively, 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 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 of 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 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 Samuels Library, Inc. as of June 30, 2016 and 2015, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
October 17, 2016

SAMUELS LIBRARY, INC.

Statements of Financial Position

June 30, 2016 and 2015

Assets	2016	2015
Cash and cash equivalents	\$ 143,120	\$ 136,747
Accounts receivable	175	--
Capital lease receivable	153,146	181,382
Prepaid expense	--	4,379
Investments	453,786	414,666
Land, buildings and equipment, net	<u>403,474</u>	<u>373,388</u>
 Total assets	 <u>\$ 1,153,701</u>	 <u>\$ 1,110,562</u>
 Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 11,461	\$ 16,469
Current maturities, long term debt	<u>12,565</u>	<u>--</u>
Total current liabilities	<u>\$ 24,026</u>	<u>\$ 16,469</u>
 Long-Term Liabilities, Promissory note	 <u>\$ 42,159</u>	 <u>\$ --</u>
 Net Assets		
Unrestricted	\$ 1,060,436	\$ 1,061,114
Temporarily restricted	<u>27,080</u>	<u>32,979</u>
Total net assets	<u>\$ 1,087,516</u>	<u>\$ 1,094,093</u>
 Total liabilities and net assets	 <u>\$ 1,153,701</u>	 <u>\$ 1,110,562</u>

See Notes to Financial Statements.

SAMUELS LIBRARY, INC.

Statement of Activities
For the Year Ended June 30, 2016

	2016		
	Unrestricted	Temporarily Restricted	Totals
Revenues and Other Support			
Warren County	\$ 910,000	\$ --	\$ 910,000
Virginia State Aid	146,381	--	146,381
The Friends of Samuels Public Library	3,000	--	3,000
Fundraising income	28,416	--	28,416
Private gifts and grants	38,946	20,000	58,946
Interest earned	21,198	--	21,198
Fines and copier revenue	40,229	--	40,229
Miscellaneous fees	30,818	--	30,818
Realized and unrealized gain/(loss)	(4,366)	--	(4,366)
Total revenues and other support before releases	\$ 1,214,622	\$ 20,000	\$ 1,234,622
Net assets released from restriction	25,899	(25,899)	--
Total revenues and other support	\$ 1,240,521	\$ (5,899)	\$ 1,234,622
Expenses			
Automated systems	\$ 21,489	\$ --	\$ 21,489
Book-related costs	16,762	--	16,762
Books, cassettes, and videos	98,400	--	98,400
Children and adult programs	17,716	--	17,716
Computer hardware and software supplies	21,011	--	21,011
Depreciation	80,670	--	80,670
Fundraising	5,777	--	5,777
Insurance	6,173	--	6,173
Interest	2,499	--	2,499
Investment fees	2,245	--	2,245
Maintenance service and supplies	44,035	--	44,035
Office equipment and maintenance	24,673	--	24,673
Office expense	17,987	--	17,987
Other expense	28,419	--	28,419
Salaries	595,639	--	595,639
Subscriptions	9,136	--	9,136
Taxes and benefits	173,707	--	173,707
Utilities	74,861	--	74,861
Total expenses	\$ 1,241,199	\$ --	\$ 1,241,199
Change in net assets	\$ (678)	\$ (5,899)	\$ (6,577)
Net assets, beginning of year	1,061,114	32,979	1,094,093
Net assets, end of year	\$ 1,060,436	\$ 27,080	\$ 1,087,516

See Notes to Financial Statements.

SAMUELS LIBRARY, INC.

Statement of Activities
For the Year Ended June 30, 2015

	2015		
	Unrestricted	Temporarily Restricted	Totals
Revenues and Other Support			
Warren County	\$ 875,000	\$ --	\$ 875,000
Virginia State Aid	143,052	--	143,052
The Friends of Samuels Public Library	5,948	--	5,948
Fundraising income	27,863	--	27,863
Private gifts and grants	39,085	58,323	97,408
Interest earned	21,497	--	21,497
Fines and copier revenue	39,387	--	39,387
Miscellaneous fees	39,187	--	39,187
Realized and unrealized gain/(loss)	(2,185)	--	(2,185)
Total revenues and other support before releases	\$ 1,188,834	\$ 58,323	\$ 1,247,157
Net assets released from restriction	54,532	(54,532)	--
Total revenues and other support	\$ 1,243,366	\$ 3,791	\$ 1,247,157
Expenses			
Automated systems	\$ 2,632	\$ --	\$ 2,632
Bad debt	1,000	--	1,000
Book-related costs	22,468	--	22,468
Books, cassettes, and videos	94,744	--	94,744
Children and adult programs	14,066	--	14,066
Computer hardware and software supplies	20,347	--	20,347
Depreciation	74,316	--	74,316
Fundraising	4,107	--	4,107
Insurance	6,053	--	6,053
Investment fees	2,061	--	2,061
Maintenance service and supplies	50,468	--	50,468
Office equipment and maintenance	12,215	--	12,215
Office expense	18,866	--	18,866
Other expense	28,270	--	28,270
Salaries	549,910	--	549,910
Subscriptions	5,517	--	5,517
Taxes and benefits	169,043	--	169,043
Utilities	111,769	--	111,769
Total expenses	\$ 1,187,852	\$ --	\$ 1,187,852
Change in net assets	\$ 55,514	\$ 3,791	\$ 59,305
Net assets, beginning of year	1,005,600	29,188	1,034,788
Net assets, end of year	\$ 1,061,114	\$ 32,979	\$ 1,094,093

See Notes to Financial Statements.

SAMUELS LIBRARY, INC.

Statements of Cash Flows
For the Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Change in net assets	\$ (6,577)	\$ 59,305
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized and unrealized loss on investment securities	4,366	2,185
Depreciation	80,670	74,316
Non cash contributions	--	(14,364)
(Gain) loss on disposal of fixed assets	(90)	--
Changes in assets and liabilities:		
Decrease in pledges receivable	--	1,000
(Increase) in accounts receivable	(175)	--
Decrease (increase) in prepaid expenses	4,379	(4,379)
(Decrease) increase in accounts payable and accrued expenses	(5,008)	9,960
Net cash provided by operating activities	\$ 77,565	\$ 128,023
 Cash Flows from Investing Activities		
Purchase of property and equipment	\$ (110,796)	\$ (80,013)
Proceeds from sale of investments	138,817	139,933
Proceeds from sale of fixed assets	130	--
Acquisition of new investments	(182,303)	(184,379)
Net cash (used in) investing activities	\$ (154,152)	\$ (124,459)
 Cash Flows from Financing Activities		
Proceeds from capital lease receivable	\$ 28,236	\$ 27,681
Proceeds from notes payable	65,000	--
Principal payments on notes payable	(10,276)	--
Net cash provided by financing activities	\$ 82,960	\$ 27,681
 Net increase in cash and cash equivalents	\$ 6,373	\$ 31,245
 Cash and Cash Equivalents		
Beginning	136,747	105,502
Ending	\$ 143,120	\$ 136,747
 Supplemental Disclosures of Cash Flow Information,		
cash paid for interest	\$ 2,499	\$ --
 Supplemental Schedule of Noncash Investing Activities		
fair market value of assets contributed	\$ --	\$ 14,364

See Notes to Financial Statements.

SAMUELS LIBRARY, INC.

Notes to Financial Statements

Note 1. Nature of Operations

Samuels Library, Incorporated (“the Library”) is a Virginia nonprofit corporation. Its purpose is to operate a public library serving the Town of Front Royal and Warren County, Virginia. The Library’s major sources of income are from Warren County and Virginia State Aid.

Note 2. Significant Accounting Policies

The financial statements of the Library have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Contributions

The Library reports gifts of cash and other assets as 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 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.

Gifts of land, buildings, and equipment are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Library reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Net Asset Groups

Permanently restricted net assets consist of various individual gifts from donors who have stipulated, as a condition of the gift, that the principal is to be maintained intact in perpetuity and that only the income from the investment be expended either for unrestricted purposes or for purposes stated by the donor. The Library has no permanently restricted net assets as of June 30, 2016 and 2015.

Temporarily restricted net assets consist of individual gifts from donors who have stipulated time or purpose restrictions. Assets are released from restriction and reclassified to other net asset groups as the Library fulfills the donor stipulation or upon passage of time. Restrictions whose purpose was fulfilled in the year of restriction are recorded as unrestricted donations for the year. The Library has temporarily restricted net assets of \$27,080 and \$32,979 for the years ended June 30, 2016 and 2015, respectively.

Notes to Financial Statements

Cash and Cash Equivalents

For purposes of reporting cash flows, the Library considers all highly liquid debt instruments purchased with a maturity of twelve months or less to be cash equivalents. The Library's cash accounts are maintained in two commercial banks located in Virginia.

Plant Assets and Depreciation

All purchases of property and equipment have been recorded at cost. Property and equipment that is donated to the Library is stated at its fair market value at the time of donation. Depreciation is determined by the straight-line method. Estimated useful lives for purposes of depreciation are as follows:

	<u>Years</u>
Equipment	3-15
Furniture and fixtures	10

Depreciation expense was \$80,670 and \$74,316 for the years ended June 30, 2016 and 2015, respectively.

Revenue Recognition

The Library recognizes revenue in the year it is earned.

Fair Value of Financial Instruments

The carrying amounts of the Library's financial instruments approximate their fair value.

Use of 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 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Tax Status

The Internal Revenue Service has determined that the Library is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Notes to Financial Statements

Fair Value of Financial Instruments

Accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under the standards are described as follows:

Level 1 – Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities or other inputs observable for the asset or liability, either directly or indirectly through corroboration with observable market data. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

For the fiscal years ended June 30, 2016 and 2015, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Investments

The fair value of investments is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers.

Notes to Financial Statements

Note 3. Land, Buildings and Equipment

At June 30, 2016 and 2015, land, buildings and equipment consisted of the following:

	2016	2015
Equipment	\$ 418,940	\$ 256,513
Furniture and fixtures	459,676	459,676
Construction in progress	--	56,305
	\$ 878,616	\$ 772,494
Less accumulated depreciation	(475,142)	(399,106)
	<u>\$ 403,474</u>	<u>\$ 373,388</u>

Note 4. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2016 and 2015 are available for the following purposes:

	2016	2015
Collection development	\$ 15,000	\$ --
Pledges and other time restrictions	--	8,323
Childrens garden project	--	8,056
Issuance of new library cards - Gins Estate	12,080	16,600
	<u>\$ 27,080</u>	<u>\$ 32,979</u>

Net assets during the years ended June 30, 2016 and 2015 were released from donor restrictions by incurring expenses satisfying restricted purposes or by occurrence of other events specified by donors.

	2016	2015
Collection development	\$ 5,000	\$ --
Issuance of new library cards - Gins Estate	4,520	2,687
Pledges and other time restrictions	8,323	8,950
Landscaping	--	951
Childrens garden project	8,056	41,944
	<u>\$ 25,899</u>	<u>\$ 54,532</u>

Notes to Financial Statements

Note 5. Pension Plan

The Library maintains a defined contribution pension plan covering employees who have been employed by the Library for one year. The plan was established in July 2013. Contributions vest after one year of service. The library contributes 5% of eligible employee's earnings. The Library contributed \$36,232 and \$28,479 to the plan for the years ending June 30, 2016 and 2015, respectively.

Note 6. Notes Payable

Notes payable at June 30, 2016 and 2015, consist of the following.

	<u>2016</u>	<u>2015</u>
Note payable to a financing institution in the amount of \$65,000 collateralized by securities held in the investment account at BB&T Scott & Stringfellow. The loan is payable in monthly installments of \$1,161 including interest at 2.79% maturing July 2020.	\$ 54,724	\$ - -

Aggregate maturities of long-term debt are as follows: 2017, \$12,565; 2018, \$12,920; 2019, \$13,285; 2020, \$13,661; 2021, \$2,293.

Note 7. Contributed Services

Contributions of services shall be recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

These amounts have been reflected in the financial statements for donated services. The Library pays for most services requiring specific expertise. However, the Library receives a significant amount of donated services from unpaid volunteers who assist in clerical duties. No amounts have been recognized in the statement of activities because the criteria for recognition under FASB Accounting Standards Codification have not been satisfied.

Note 8. Concentration of Credit Risk

The Library's cash amounts are maintained in two commercial banks located in Virginia which, at times may exceed federally insured limits. The Library has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Notes to Financial Statements

Note 9. Related Parties

The Friends of Samuels Public Library, Inc. is a related Organization of the Library that was created to support the Library. The related Organization has not been consolidated in the Library's financial statements since it is a separate entity and does not meet the requirements for consolidation. The Friends of Samuels Public Library, Inc. donated \$3,000 to the Library for the year ended June 30, 2016.

Note 10. Leases

The Library leases its facility on Criser Road from Warren County for \$1 each year. The lease is a 30-year term which will expire in January 2038.

In May 2012, the Library entered into a capital lease (with purchase option) with Warren County for the facility on Villa Avenue. Warren County will pay the Library \$550,000 less the \$231,372 remaining note payable balance over 8 years commencing January 1, 2012 and ending January 1, 2019. Future minimum lease payments at June 30, 2016 are as follows:

Year Ending June 30:

2017	\$	53,105
2018		53,105
2019		53,105
		159,315
		\$ 159,315
Imputed interest at 2%		(6,169)
		\$ 153,146

Note 11. Investments

The cost and fair value of securities are summarized as follows:

	2016		2015	
	Cost	Market Value	Cost	Market Value
Cash reserves	\$ 100,054	\$ 100,054	\$ 4,389	\$ 4,389
Corporate equity securities	51,056	211,424	59,554	248,788
Mutual funds	271,851	142,308	316,107	161,489
	\$ 422,961	\$ 453,786	\$ 380,050	\$ 414,666

Notes to Financial Statements

Note 12. Fair Value Measurements

The following table presents the balance of financial assets measured at fair value as of June 30, 2016 and 2015:

	2016		
	Level 1	Level 2	Level 3
Cash reserves	\$ 100,054	\$ --	\$ --
Corporate equity securities	211,424	--	--
Mutual funds	142,308	--	--
	\$ 453,786	\$ --	\$ --
	2015		
	Level 1	Level 2	Level 3
Cash reserves	\$ 4,389	\$ --	\$ --
Corporate equity securities	248,788	--	--
Mutual funds	161,489	--	--
	\$ 414,666	\$ --	\$ --

Note 13. Subsequent Events

The Library has evaluated all events through October 17, 2016, the date the financial statements were available to be issued. The Library has determined there are no additional subsequent events that require recognition or disclosure.