

SAMUELS LIBRARY, INC.

Front Royal, Virginia

FINANCIAL REPORT

JUNE 30, 2010

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of Samuels Library, Inc. as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Library's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2010 and 2009, 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.

Winchester, Virginia
, 2010

SAMUELS LIBRARY, INC.

Statements of Financial Position

June 30, 2010 and 2009

Assets	2010	2009
Cash and cash equivalents	\$ 248,971	\$ 459,875
Grants receivable	9,750	16,250
Land, buildings and equipment, net	<u>542,172</u>	<u>612,630</u>
Total assets	<u>\$ 800,893</u>	<u>\$ 1,088,755</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 11,570	\$ 68,178
Deferred income	6,844	7,733
Funds held for Warren County for new library construction	33,464	208,231
Notes payable	<u>260,474</u>	<u>382,750</u>
Total liabilities	<u>\$ 312,352</u>	<u>\$ 666,892</u>
Net Assets		
Unrestricted	\$ 483,426	\$ 421,863
Temporarily restricted	<u>5,115</u>	<u>--</u>
Total net assets	<u>\$ 488,541</u>	<u>\$ 421,863</u>
Total liabilities and net assets	<u>\$ 800,893</u>	<u>\$ 1,088,755</u>

See Notes to Financial Statements.

SAMUELS LIBRARY, INC.

Statements of Activities

For the Years Ended June 30, 2010 and 2009

	2010			2009
	Unrestricted	Temporarily Restricted	Totals	
Revenues and Other Support				
Warren County	\$ 600,000	\$ --	\$ 600,000	\$ 473,717
Virginia State Aid	131,338	--	131,338	137,713
Town of Front Royal	82,000	--	82,000	68,924
Samuels Library Foundation	67,909	--	67,909	216,268
Private gifts and grants	116,944	5,115	122,059	43,925
Interest earned	836	--	836	5,383
Fines and copier revenue	33,926	--	33,926	27,149
Miscellaneous fees	21,604	--	21,604	18,936
Total revenues and other support	<u>\$ 1,054,557</u>	<u>\$ 5,115</u>	<u>\$ 1,059,672</u>	<u>\$ 992,015</u>
Expenses				
Automated systems	\$ 17,534	\$ --	\$ 17,534	\$ 15,807
Book-related costs	23,331	--	23,331	9,139
Books, cassettes, and videos	102,243	--	102,243	79,530
Children and adult programs	9,845	--	9,845	9,971
Computer hardware and software supplies	7,672	--	7,672	52,257
Depreciation	88,222	--	88,222	41,333
Furniture and equipment	3,623	--	3,623	53,790
Insurance	5,688	--	5,688	5,289
Interest expense	18,570	--	18,570	12,762
Loss on disposal of fixed assets	324	--	324	4,741
Maintenance service and supplies	21,052	--	21,052	18,596
Office equipment and maintenance	6,499	--	6,499	9,766
Office expense	11,972	--	11,972	6,723
Other expense	20,494	--	20,494	16,344
Salaries	454,120	--	454,120	392,584
Subscriptions	6,619	--	6,619	11,020
Taxes and benefits	102,094	--	102,094	82,779
Utilities	93,092	--	93,092	24,607
Total expenses	<u>\$ 992,994</u>	<u>\$ --</u>	<u>\$ 992,994</u>	<u>\$ 847,038</u>
Change in net assets	\$ 61,563	\$ 5,115	\$ 66,678	\$ 144,977
Net assets, beginning of year	<u>421,863</u>	<u>--</u>	<u>421,863</u>	<u>276,886</u>
Net assets, end of year	<u>\$ 483,426</u>	<u>\$ 5,115</u>	<u>\$ 488,541</u>	<u>\$ 421,863</u>

See Notes to Financial Statements.

SAMUELS LIBRARY, INC.

Statements of Cash Flows

For the Years Ended June 30, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Increase in net assets	\$ 66,678	\$ 144,977
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	88,222	41,333
Loss on disposal of fixed assets	324	4,741
Changes in assets and liabilities:		
Decrease (increase) in grants receivable	6,500	(16,250)
(Decrease) increase in accounts payable and accrued expenses	(56,608)	25,447
(Decrease) in deferred income	(889)	(1,267)
Net cash provided by operating activities	\$ 104,227	\$ 198,981
 Cash Flows from Investing Activities		
Purchase of property and equipment	\$ (18,088)	\$ (143,515)
(Decrease) in funds held for Warren County for library construction	(174,767)	(3,491,410)
Net cash (used in) investing activities	\$ (192,855)	\$ (3,634,925)
 Cash Flows from Financing Activities, principal payments on note payable	\$ (122,276)	\$ (20,944)
Net (decrease) in cash and cash equivalents	\$ (210,904)	\$ (3,456,888)
 Cash and Cash Equivalents		
Beginning	459,875	3,916,763
Ending	\$ 248,971	\$ 459,875
 Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	\$ 967	\$ 8,312
Noncash - furniture and fixtures financed	\$ --	\$ 356,372

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, the Town of Front Royal 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, 2010 and 2009.

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 \$5,155 and \$0 for the years ended June 30, 2010 and 2009, respectively.

Cash and Cash Equivalents

Notes to Financial Statements

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>
Buildings and improvements	20-33
Equipment	3-15
Furniture and fixtures	10

Depreciation expense was \$88,222 and \$41,333 for the years ended June 30, 2010 and 2009, 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

Note 3. Land, Buildings and Equipment

At June 30, 2010 and 2009, land, buildings and equipment consisted of the following:

	2010	2009
Buildings and improvements	\$ 687,715	\$ 687,715
Equipment	207,228	199,956
Furniture and fixtures	443,539	433,533
	\$ 1,338,482	\$ 1,321,204
Less accumulated depreciation	(796,310)	(708,574)
	\$ 542,172	\$ 612,630

Note 4. Notes Payable

	2010	2009
Wachovia		
\$100,000 note with interest of 5.990%, and monthly payments of \$1,937 until August 2010, secured by Horizon Automation System.	\$ 4,102	\$ 26,378
 County of Warren, Virginia		
\$356,372 note with interest being donated, and quarterly principal payments of \$89,093, matured March 2010. \$256,372 outstanding balance extended for 3 years at 2.0% annual interest, payable in quarterly installments beginning June 30, 2010.	256,372	356,372
	\$ 260,474	\$ 382,750

Maturities of long-term debt and notes payable are: \$ 109,461, 2011; \$85,647, 2012; and \$65,366, 2013.

Notes to Financial Statements

Note 5. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2010 and 2009 are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Landscaping	\$ 3,155	\$ - -
Children's programs	<u>2,000</u>	<u>- -</u>
	<u>\$ 5,155</u>	<u>\$ - -</u>

Note 6. 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 April 1990. Contributions vest after one year of service. The library contributes 5% of eligible employee's earnings. The Library contributed \$18,376 and \$16,328 to the plan for the years ending June 30, 2010 and 2009, respectively.

Note 7. Deferred Income

The Library received \$6,844 and \$7,733 from the Thompson Charitable Trust in April 2010 and 2009, respectively. This contribution is for the next fiscal year.

Note 8. Commitments and Contingencies

The Library receives a substantial amount of its support from state and local governments. A significant reduction in the level of this support, if this were to occur, may have a significant effect on the Library's programs and activities.

The Library has entered into contracts for architect services and construction services for the construction of a new library that will be owned by Warren County. As of June 30, 2010, there was no remaining commitment on this contract.

Note 9. Funds Held for Warren County

The Library has entered into a contract to facilitate and oversee the construction of a new library that will be owned by Warren County. The Library is liable to Warren County for all funds received as well as any income earned on the funds. Funds will be disbursed to pay for design and construction related costs as needed. At June 30, 2010 and 2009, funds held for Warren County including investment income earned less expenditures incurred totaled \$ 33,464 and \$208,231, respectively.

Notes to Financial Statements

	2010	2009
Funds held for Warren County for new library construction at beginning of year	\$ 208,231	\$ 3,699,641
Amounts received from Warren County	- -	1,827,907
Investment income	118	51,512
Expenditures	(174,885)	(5,370,829)
Funds held for Warren County for new library construction at end of year	\$ 33,464	\$ 208,231

Note 10. 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 11. Concentration of Credit Risk

The Library maintains its cash accounts in two commercial banks. The amount on deposit at June 30, 2010 did not exceed the insurance limits of the Federal Deposit Insurance Corporation.

Note 12. Related Parties

Friends of Samuels Library and Samuels Library Foundation (“the Foundation”) are related Organizations of the Library that were created to support the Library. The related Organizations have not been consolidated in the Library’s financial statements since they are separate entities and do not meet the requirements for consolidation. The Foundation donated to the Library \$67,909 and \$216,268 for the years ended June 30, 2010 and 2009, respectively. The Foundation has agreed to make the quarterly principal payment on the loan from Warren County, which matured on March 30, 2010. The note was extended for 3 years at two percent interest yearly, payable in quarterly installments, beginning June 30, 2010.

Notes to Financial Statements

Note 13. 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 return, Warren County leases the facility on Villa Avenue from the Library for \$0. The lease is a 20-year term which will expire in September 2029.

Note 14. Accounting for Uncertain Tax Positions

The Financial Accounting Standards Board issued new guidance on accounting for uncertainty in income taxes. The Library adopted this new guidance for the year ended June 30, 2010. Management evaluated the Library's tax positions and concluded that the Library had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the Library is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for tax years ending before 2007.

Note 15. Subsequent Events

In preparing these financial statements, the Library has evaluated events and transactions for potential recognition or disclosure through September xx, 2010, the date the financial statements were available to be issued. The Library has determined there are no subsequent events that require recognition or disclosure.

County to purchase old building???

, 2010

To the Board of Directors
Samuels Library, Inc.
330 East Criser Road
Front Royal, Virginia 22630

Dear Board Members:

We are enclosing sixteen (16) copies of the Financial Report for Samuels Library, Inc. as of June 30, 2010.

Please feel free to contact us should you have any questions or need additional copies of the report or management letter.

Sincerely,

YOUNT, HYDE & BARBOUR, P.C.

Olivia A. Hutton, CPA

OAH/

Enclosures