

**SAMUELS LIBRARY, INC.**

**Front Royal, Virginia**

**FINANCIAL REPORT**

**June 30, 2011**

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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, 2011 and 2010, 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, 2011 and 2010, 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 24, 2011

**SAMUELS LIBRARY, INC.**

**Statements of Financial Position**

June 30, 2011 and 2010

<b>Assets</b>	<b>2011</b>	<b>2010</b>
Cash and cash equivalents	\$ 261,572	\$ 248,971
Grants receivable	--	9,750
Pledges receivable	14,000	--
Capital lease receivable	291,178	--
Land, buildings and equipment, net	<u>432,360</u>	<u>542,172</u>
Total assets	<u>\$ 999,110</u>	<u>\$ 800,893</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 11,267	\$ 11,570
Deferred income	7,200	6,844
Funds held for Warren County for new library construction	--	33,464
Notes payable	<u>--</u>	<u>260,474</u>
Total liabilities	<u>\$ 18,467</u>	<u>\$ 312,352</u>
<b>Net Assets</b>		
Unrestricted	\$ 963,488	\$ 483,426
Temporarily restricted	<u>17,155</u>	<u>5,115</u>
Total net assets	<u>\$ 980,643</u>	<u>\$ 488,541</u>
Total liabilities and net assets	<u>\$ 999,110</u>	<u>\$ 800,893</u>

See Notes to Financial Statements.

**SAMUELS LIBRARY, INC.**

**Statement of Activities**

For the Year Ended June 30, 2011

	<b>2011</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Totals</b>
<b>Revenues and Other Support</b>			
Warren County	\$ 650,000	\$ --	\$ 650,000
Virginia State Aid	124,311	--	124,311
Town of Front Royal	95,000	--	95,000
Samuels Library Foundation	50,000	--	50,000
Private gifts and grants	29,747	14,000	43,747
Interest earned	1,845	--	1,845
Fines and copier revenue	37,783	--	37,783
Gain on disposal of fixed assets	494,734	--	494,734
Miscellaneous fees	17,171	--	17,171
Total revenues and other support before releases	1,500,591	14,000	1,514,591
Net assets released from restriction	2,000	(2,000)	--
Total revenues and other support	<u>\$ 1,502,591</u>	<u>\$ 12,000</u>	<u>\$ 1,514,591</u>
<b>Expenses</b>			
Automated systems	\$ 15,995	\$ --	\$ 15,995
Bad debt expense	9,750	--	9,750
Book-related costs	11,704	--	11,704
Books, cassettes, and videos	74,214	--	74,214
Children and adult programs	13,869	--	13,869
Computer hardware and software supplies	12,087	--	12,087
Depreciation	83,765	--	83,765
Insurance	6,089	--	6,089
Interest expense	3,878	--	3,878
Maintenance service and supplies	49,524	--	49,524
Office equipment and maintenance	9,833	--	9,833
Office expense	15,926	--	15,926
Other expense	26,104	--	26,104
Salaries	486,984	--	486,984
Subscriptions	8,909	--	8,909
Taxes and benefits	110,300	--	110,300
Utilities	83,558	--	83,558
Total expenses	<u>\$ 1,022,489</u>	<u>\$ --</u>	<u>\$ 1,022,489</u>
Change in net assets	\$ 480,102	\$ 12,000	\$ 492,102
Net assets, beginning of year	<u>483,386</u>	<u>5,155</u>	<u>488,541</u>
Net assets, end of year	<u>\$ 963,488</u>	<u>\$ 17,155</u>	<u>\$ 980,643</u>

See Notes to Financial Statements.

**SAMUELS LIBRARY, INC.**

**Statement of Activities**

For the Year Ended June 30, 2010

	<b>2010</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Totals</b>
<b>Revenues and Other Support</b>			
Warren County	\$ 600,000	\$ --	\$ 600,000
Virginia State Aid	131,338	--	131,338
Town of Front Royal	82,000	--	82,000
Samuels Library Foundation	67,909	--	67,909
Private gifts and grants	116,904	5,155	122,059
Interest earned	836	--	836
Fines and copier revenue	33,926	--	33,926
Miscellaneous fees	21,604	--	21,604
Total revenues and other support	\$ 1,054,517	\$ 5,155	\$ 1,059,672
<b>Expenses</b>			
Automated systems	\$ 17,534	\$ --	\$ 17,534
Book-related costs	23,331	--	23,331
Books, cassettes, and videos	102,243	--	102,243
Children and adult programs	9,845	--	9,845
Computer hardware and software supplies	7,672	--	7,672
Depreciation	88,222	--	88,222
Furniture and equipment	3,623	--	3,623
Insurance	5,688	--	5,688
Interest expense	18,570	--	18,570
Loss on disposal of fixed assets	324	--	324
Maintenance service and supplies	21,052	--	21,052
Office equipment and maintenance	6,499	--	6,499
Office expense	11,972	--	11,972
Other expense	20,494	--	20,494
Salaries	454,120	--	454,120
Subscriptions	6,619	--	6,619
Taxes and benefits	102,094	--	102,094
Utilities	93,092	--	93,092
Total expenses	\$ 992,994	\$ --	\$ 992,994
Change in net assets	\$ 61,523	\$ 5,155	\$ 66,678
Net assets, beginning of year	421,863	--	421,863
Net assets, end of year	\$ 483,386	\$ 5,155	\$ 488,541

See Notes to Financial Statements.

**SAMUELS LIBRARY, INC.**

**Statements of Cash Flows**

For the Years Ended June 30, 2011 and 2010

	<b>2011</b>	<b>2010</b>
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 492,102	\$ 66,678
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	83,765	88,222
(Gain) loss on disposal of fixed assets	(494,734)	324
Changes in assets and liabilities:		
Decrease in grants receivable	9,750	6,500
(Increase) in pledges receivable	(14,000)	--
(Decrease) in accounts payable and accrued expenses	(303)	(56,608)
Increase (decrease) in deferred income	356	(889)
Net cash provided by operating activities	\$ 76,936	\$ 104,227
 <b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	\$ (1,769)	\$ (18,088)
(Decrease) in funds held for Warren County for library construction	(33,464)	(174,767)
Net cash (used in) investing activities	\$ (35,233)	\$ (192,855)
 <b>Cash Flows from Financing Activities,</b> principal payments on note payable	\$ (29,102)	\$ (122,276)
Net increase (decrease) in cash and cash equivalents	\$ 12,601	\$ (210,904)
 <b>Cash and Cash Equivalents</b>		
Beginning	248,971	459,875
Ending	\$ 261,572	\$ 248,971
 <b>Supplemental Disclosures of Cash Flow Information</b>		
Cash payments for interest	\$ 32	\$ 967
Noncash - settlement of debt in connection with capital lease	\$ (231,372)	\$ --
Noncash - capital lease receivable	\$ (291,178)	\$ --

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, 2011 and 2010.

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 \$17,155 and \$5,155 for the years ended June 30, 2011 and 2010, 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>
Buildings and improvements	20-33
Equipment	3-15
Furniture and fixtures	10

Depreciation expense was \$83,765 and \$88,222 for the years ended June 30, 2011 and 2010, 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, 2011 and 2010, land, buildings and equipment consisted of the following:

	2011	2010
Buildings and improvements	\$ 37,715	\$ 687,715
Equipment	208,288	207,228
Furniture and fixtures	444,128	443,539
	\$ 690,131	\$ 1,338,482
Less accumulated depreciation	(257,771)	(796,310)
	\$ 432,360	\$ 542,172

### Note 4. Notes Payable

	2011	2010
<b>Wachovia</b>		
\$100,000 note with interest of 5.990%, and monthly payments of \$1,937 until August 2010, secured by Horizon Automation System.	\$ --	\$ 4,102
 <b>County of Warren, Virginia</b>		
\$356,372 note with interest being donated, and quarterly principal payments of \$89,093, matured March 2010. \$0 outstanding balance extended for 3 years at 2.0% annual interest, payable in quarterly installments beginning June 30, 2010.	--	256,372
	\$ --	\$ 260,474

## Notes to Financial Statements

### Note 5. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2011 and 2010 are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Landscaping	\$ 3,155	\$ 3,155
Children's programs	--	2,000
Pledges, time restriction	<u>14,000</u>	<u>--</u>
	<u>\$ 17,155</u>	<u>\$ 5,155</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 \$24,393 and \$18,376 to the plan for the years ending June 30, 2011 and 2010, respectively.

### Note 7. Deferred Income

The Library received \$7,200 and \$6,844 from the Thompson Charitable Trust in April 2011 and 2010, 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.

## Notes to Financial Statements

### 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, 2011 and 2010, funds held for Warren County including investment income earned less expenditures incurred totaled \$0 and \$33,464, respectively.

	2011	2010
Funds held for Warren County for new library construction at beginning of year	\$ 33,464	\$ 208,231
Amounts received from Warren County	--	--
Investment income	15	118
Expenditures	(33,479)	(174,885)
Funds held for Warren County for new library construction at end of year	\$ --	\$ 33,464

### 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, 2011 did not exceed the insurance limits of the Federal Deposit Insurance Corporation.

## Notes to Financial Statements

### 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 \$50,000 and \$67,909 for the years ended June 30, 2011 and 2010, respectively.

### 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 May 2011, 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, 2011 are as follows:

#### Year Ending June 30:

2012	\$	31,863
2013		31,863
2014		31,863
2015		31,863
2016		31,863
Thereafter		<u>159,313</u>
	\$	318,628
Imputed interest at 5%		<u>(27,450)</u>
	\$	<u>291,178</u>

### Note 14. Subsequent Events

In preparing these financial statements, the Library has evaluated events and transactions for potential recognition or disclosure through October 24, 2011, the date the financial statements were available to be issued.