

**SAMUELS LIBRARY, INC.**

**Front Royal, Virginia**

**FINANCIAL REPORT**

**June 30, 2017**

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## 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, 2017 and 2016, 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, 2017 and 2016, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Yount, Hyde & Barbour, P.C.*

Winchester, Virginia  
October 23, 2017

**SAMUELS LIBRARY, INC.**

**Statements of Financial Position**

June 30, 2017 and 2016

<b>Assets</b>	<b>2017</b>	<b>2016</b>
Cash and cash equivalents	\$ 155,506	\$ 143,120
Accounts receivable	175	175
Capital lease receivable	103,105	153,146
Prepaid expense	12,202	--
Investments	587,243	453,786
Land, buildings and equipment, net	<u>337,097</u>	<u>403,474</u>
 Total assets	 <u>\$ 1,195,328</u>	 <u>\$ 1,153,701</u>
 <b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 13,075	\$ 11,461
Current maturities, note payable	<u>12,920</u>	<u>12,565</u>
Total current liabilities	<u>\$ 25,995</u>	<u>\$ 24,026</u>
 <b>Note payable, less current maturities</b>	 <u>\$ 29,262</u>	 <u>\$ 42,159</u>
 <b>Net Assets</b>		
Unrestricted	\$ 1,117,204	\$ 1,060,436
Temporarily restricted	<u>22,867</u>	<u>27,080</u>
Total net assets	<u>\$ 1,140,071</u>	<u>\$ 1,087,516</u>
 Total liabilities and net assets	 <u>\$ 1,195,328</u>	 <u>\$ 1,153,701</u>

See Notes to Financial Statements.

**SAMUELS LIBRARY, INC.**

**Statement of Activities**  
For the Year Ended June 30, 2017

	<b>2017</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Totals</b>
<b>Revenues and Other Support</b>			
Warren County	\$ 945,322	\$ --	\$ 945,322
Virginia State Aid	150,664	--	150,664
The Friends of Samuels Public Library	3,000	--	3,000
Fundraising income	32,377	500	32,877
Private gifts and grants	42,007	2,320	44,327
Interest earned	20,791	--	20,791
Fines and copier revenue	39,958	--	39,958
Miscellaneous fees	24,918	--	24,918
Realized and unrealized gain	36,865	--	36,865
Total revenues and other support before releases	<u>\$ 1,295,902</u>	<u>\$ 2,820</u>	<u>\$ 1,298,722</u>
Net assets released from restriction	7,033	(7,033)	--
Total revenues and other support	<u>\$ 1,302,935</u>	<u>\$ (4,213)</u>	<u>\$ 1,298,722</u>
<b>Expenses</b>			
Automated systems	\$ 21,489	\$ --	\$ 21,489
Book-related costs	17,904	--	17,904
Books, cassettes, and videos	91,592	--	91,592
Children and adult programs	17,419	--	17,419
Computer hardware and software supplies	11,714	--	11,714
Depreciation	86,053	--	86,053
Fundraising	5,254	--	5,254
Insurance	7,136	--	7,136
Interest	1,395	--	1,395
Investment fees	2,548	--	2,548
Maintenance service and supplies	49,301	--	49,301
Office equipment and maintenance	14,858	--	14,858
Office expense	20,093	--	20,093
Other expense	24,960	--	24,960
Salaries	626,903	--	626,903
Subscriptions	8,323	--	8,323
Taxes and benefits	168,463	--	168,463
Utilities	70,762	--	70,762
Total expenses	<u>\$ 1,246,167</u>	<u>\$ --</u>	<u>\$ 1,246,167</u>
Change in net assets	\$ 56,768	\$ (4,213)	\$ 52,555
Net assets, beginning of year	<u>1,060,436</u>	<u>27,080</u>	<u>1,087,516</u>
Net assets, end of year	<u>\$ 1,117,204</u>	<u>\$ 22,867</u>	<u>\$ 1,140,071</u>

See Notes to Financial Statements.

**SAMUELS LIBRARY, INC.**

**Statement of Activities**  
For the Year Ended June 30, 2016

	<b>2016</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Totals</b>
<b>Revenues and Other Support</b>			
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 (loss)	(4,366)	--	(4,366)
Total revenues and other support before releases	<u>\$ 1,214,622</u>	<u>\$ 20,000</u>	<u>\$ 1,234,622</u>
Net assets released from restriction	25,899	(25,899)	--
Total revenues and other support	<u>\$ 1,240,521</u>	<u>\$ (5,899)</u>	<u>\$ 1,234,622</u>
<b>Expenses</b>			
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	<u>\$ 1,241,199</u>	<u>\$ --</u>	<u>\$ 1,241,199</u>
Change in net assets	\$ (678)	\$ (5,899)	\$ (6,577)
Net assets, beginning of year	<u>1,061,114</u>	<u>32,979</u>	<u>1,094,093</u>
Net assets, end of year	<u>\$ 1,060,436</u>	<u>\$ 27,080</u>	<u>\$ 1,087,516</u>

See Notes to Financial Statements.

**SAMUELS LIBRARY, INC.**

**Statements of Cash Flows**  
For the Years Ended June 30, 2017 and 2016

	<b>2017</b>	<b>2016</b>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 52,555	\$ (6,577)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gain) loss on investment securities	(36,865)	4,366
Depreciation	86,053	80,670
Loss (gain) on disposal of fixed assets	50	(90)
Changes in assets and liabilities:		
(Increase) in accounts receivable	--	(175)
(Increase) decrease in prepaid expense	(12,202)	4,379
Increase (decrease) in accounts payable and accrued expenses	1,614	(5,008)
Net cash provided by operating activities	\$ 91,205	\$ 77,565
 <b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	\$ (19,876)	\$ (110,796)
Proceeds from sale of investments	2,500	138,817
Proceeds from sale of property and equipment	150	130
Purchase of investments	(99,092)	(182,303)
Net cash (used in) investing activities	\$ (116,318)	\$ (154,152)
 <b>Cash Flows from Financing Activities</b>		
Proceeds from capital lease receivable	\$ 50,041	\$ 28,236
Proceeds from notes payable	--	65,000
Principal payments on notes payable	(12,542)	(10,276)
Net cash provided by financing activities	\$ 37,499	\$ 82,960
 Net increase in cash and cash equivalents	\$ 12,386	\$ 6,373
 <b>Cash and Cash Equivalents</b>		
Beginning	143,120	136,747
Ending	\$ 155,506	\$ 143,120
 <b>Supplemental Disclosures of Cash Flow Information,</b>		
cash paid for interest	\$ 1,395	\$ 2,499

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 had no permanently restricted net assets as of June 30, 2017 and 2016.

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 had temporarily restricted net assets of \$22,867 and \$27,080 for the years ended June 30, 2017 and 2016, 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	7-10
Building improvements	15

Depreciation expense was \$86,053 and \$80,670 for the years ended June 30, 2017 and 2016, respectively.

### Revenue Recognition

The Library recognizes revenue in the year it is earned.

### 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, 2017 and 2016, 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.

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

## Notes to Financial Statements

### New Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU 2016-02 defines a lease as a contract or a part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and lease liability at the present value of remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU 2016-02 is effective for the Organization in June 30, 2021. Early adoption is permitted. The Organization is currently evaluating the impact that the adoption of ASU 2016-02 will have on its financial statements.

In August 2016, the FASB issued ASU No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment returns, and cash flows. The guidance replaces the three classes of net assets currently presented on the statement of financial position with two classes of net assets, which are based on the existence or absence of donor-implied restrictions. ASU 2016-14 includes specific disclosure requirements intended to improve a financial statement user's ability to assess an entity's available financial resources, along with its management of liquidity and liquidity risk. The guidance requires all not-for-profit entities to present expenses by both their natural and functional classification in a single location in the financial statements. ASU 2016-14 is effective for the Organization in June 30, 2019. Early adoption is permitted. The Organization is currently evaluating the impact that the adoption of ASU 2016-14 will have on its financial statements.

### Note 3. Land, Buildings and Equipment

At June 30, 2017 and 2016, land, buildings and equipment consisted of the following:

	<u>2017</u>	<u>2016</u>
Building improvements	\$ 15,398	\$ --
Equipment	419,392	418,940
Furniture and fixtures	<u>459,676</u>	<u>459,676</u>
	\$ 894,466	\$ 878,616
Less accumulated depreciation	<u>(557,369)</u>	<u>(475,142)</u>
	<u>\$ 337,097</u>	<u>\$ 403,474</u>

## Notes to Financial Statements

### Note 4. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2017 and 2016 are available for the following purposes:

	<b>2017</b>	<b>2016</b>
Collection development	\$ 10,000	\$ 15,000
Issuance of new library cards - Gins Estate	10,047	12,080
Retirement celebration for director	1,720	--
Purchase of sphero balls	1,000	--
Children's garden tree replacement	100	--
	<b>\$ 22,867</b>	<b>\$ 27,080</b>

Net assets during the years ended June 30, 2017 and 2016 were released from donor restrictions by incurring expenses satisfying restricted purposes or by occurrence of other events specified by donors.

	<b>2017</b>	<b>2016</b>
Collection development	\$ 5,000	\$ 5,000
Issuance of new library cards - Gins Estate	2,033	4,520
Pledges and other time restrictions	--	8,323
Children's garden project	--	8,056
	<b>\$ 7,033</b>	<b>\$ 25,899</b>

### 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 \$29,720 and \$36,232 to the plan for the years ending June 30, 2017 and 2016, respectively.

## Notes to Financial Statements

### Note 6. Note Payable

Note payable at June 30, 2017 and 2016, consisted of the following.

	<u>2017</u>	<u>2016</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.	<u>\$ 42,182</u>	<u>\$ 54,724</u>

Aggregate maturities of the note payable are as follows: 2018, \$12,920; 2019, \$13,285; 2020, \$13,661; and 2021, \$2,316.

### 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.

### 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 in each of the years ended June 30, 2017 and 2016.

## Notes to Financial Statements

### Note 10. Capital Lease Receivable

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 receivable (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, 2017 are as follows:

#### Year Ending June 30:

2018	\$ 53,105
2019	<u>53,103</u>
	\$ 106,208
Imputed interest at 2%	<u>(3,103)</u>
	<u>\$ 103,105</u>

### Note 11. Investments

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

	2017		2016	
	Cost	Market Value	Cost	Market Value
Cash reserves	\$ 7,096	\$ 7,096	\$ 100,054	\$ 100,054
Corporate equity securities	313,501	366,940	51,056	211,424
Mutual funds	<u>198,805</u>	<u>213,207</u>	<u>271,851</u>	<u>142,308</u>
	<u>\$ 519,402</u>	<u>\$ 587,243</u>	<u>\$ 422,961</u>	<u>\$ 453,786</u>

## 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, 2017 and 2016:

	<b>2017</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Cash reserves	\$ 7,096	\$ --	\$ --
Corporate equity securities	366,940	--	--
Mutual funds	213,207	--	--
	\$ 587,243	\$ --	\$ --
	<b>2016</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Cash reserves	\$ 100,054	\$ --	\$ --
Corporate equity securities	211,424	--	--
Mutual funds	142,308	--	--
	\$ 453,786	\$ --	\$ --

### Note 13. Subsequent Events

The Library has evaluated all events through October 23, 2017, 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.