

**SAMUELS LIBRARY, INC.**

**Front Royal, Virginia**

**FINANCIAL REPORT**

**June 30, 2018**

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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, 2018 and 2017, 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, 2018 and 2017, 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  
November 12, 2018

**SAMUELS LIBRARY, INC.**

**Statements of Financial Position**

June 30, 2018 and 2017

<b>Assets</b>	<b>2018</b>	<b>2017</b>
Cash and cash equivalents	\$ 211,362	\$ 155,506
Accounts receivable	175	175
Capital lease receivable	52,062	103,105
Prepaid expense	10,399	12,202
Investments	659,569	587,243
Land, buildings and equipment, net	<u>319,160</u>	<u>337,097</u>
 Total assets	 <u>\$ 1,252,727</u>	 <u>\$ 1,195,328</u>
 <b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 37,013	\$ 22,346
Current maturities, note payable	<u>13,285</u>	<u>12,920</u>
Total current liabilities	<u>\$ 50,298</u>	<u>\$ 35,266</u>
 <b>Note Payable</b> , less current maturities	 <u>\$ 15,963</u>	 <u>\$ 29,262</u>
 <b>Net Assets</b>		
Unrestricted	\$ 1,171,810	\$ 1,107,933
Temporarily restricted	<u>14,656</u>	<u>22,867</u>
Total net assets	<u>\$ 1,186,466</u>	<u>\$ 1,130,800</u>
 Total liabilities and net assets	 <u>\$ 1,252,727</u>	 <u>\$ 1,195,328</u>

See Notes to Financial Statements.

**SAMUELS LIBRARY, INC.**

**Statement of Activities**  
For the Year Ended June 30, 2018

	<b>2018</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Totals</b>
<b>Revenues and Other Support</b>			
Warren County	\$ 973,682	\$ --	\$ 973,682
Virginia State Aid	149,834	--	149,834
The Friends of Samuels Public Library	18,005	--	18,005
Fundraising income	35,485	--	35,485
Private gifts and grants	35,743	--	35,743
Interest earned	25,321	--	25,321
Fines and copier revenue	40,843	--	40,843
Miscellaneous fees	18,337	--	18,337
Realized and unrealized gain	29,109	--	29,109
Total revenues and other support before releases	\$ 1,326,359	\$ --	\$ 1,326,359
Net assets released from restriction	8,211	(8,211)	--
Total revenues and other support	\$ 1,334,570	\$ (8,211)	\$ 1,326,359
<b>Expenses</b>			
Automated systems	\$ 34,546	\$ --	\$ 34,546
Book-related costs	17,881	--	17,881
Books, cassettes, and videos	91,284	--	91,284
Children and adult programs	16,267	--	16,267
Computer hardware and software supplies	13,069	--	13,069
Depreciation	83,952	--	83,952
Fundraising	4,463	--	4,463
Insurance	6,940	--	6,940
Interest	1,002	--	1,002
Investment fees	3,145	--	3,145
Maintenance service and supplies	31,657	--	31,657
Office equipment and maintenance	21,503	--	21,503
Office expense	19,084	--	19,084
Other expense	32,586	--	32,586
Salaries	641,840	--	641,840
Subscriptions	8,914	--	8,914
Taxes and benefits	164,112	--	164,112
Utilities	78,448	--	78,448
Total expenses	\$ 1,270,693	\$ --	\$ 1,270,693
Change in net assets	\$ 63,877	\$ (8,211)	\$ 55,666
Net assets, beginning of year, restated (Note 13)	1,107,933	22,867	1,130,800
Net assets, end of year	\$ 1,171,810	\$ 14,656	\$ 1,186,466

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	\$ 1,295,902	\$ 2,820	\$ 1,298,722
Net assets released from restriction	7,033	(7,033)	--
Total revenues and other support	\$ 1,302,935	\$ (4,213)	\$ 1,298,722
<b>Expenses</b>			
Automated systems	\$ 33,119	\$ --	\$ 33,119
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	37,671	--	37,671
Office equipment and maintenance	14,858	--	14,858
Office expense	20,093	--	20,093
Other expense	24,960	--	24,960
Salaries	636,174	--	636,174
Subscriptions	8,323	--	8,323
Taxes and benefits	168,463	--	168,463
Utilities	70,762	--	70,762
Total expenses	\$ 1,255,438	\$ --	\$ 1,255,438
Change in net assets	\$ 47,497	\$ (4,213)	\$ 43,284
Net assets, beginning of year	1,060,436	27,080	1,087,516
Net assets, end of year	\$ 1,107,933	\$ 22,867	\$ 1,130,800

See Notes to Financial Statements.

**SAMUELS LIBRARY, INC.**

**Statements of Cash Flows**  
For the Years Ended June 30, 2018 and 2017

	<b>2018</b>	<b>2017</b>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 55,666	\$ 43,284
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gain) on investment securities	(29,109)	(36,865)
Depreciation	83,952	86,053
Loss on disposal of fixed assets	476	50
Changes in assets and liabilities:		
Decrease (increase) in prepaid expense	1,803	(12,202)
Increase in accounts payable and accrued expenses	14,667	10,885
Net cash provided by operating activities	\$ 127,455	\$ 91,205
 <b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	\$ (66,491)	\$ (19,876)
Proceeds from sale of investments	61,138	2,500
Proceeds from sale of property and equipment	--	150
Purchase of investments	(104,355)	(99,092)
Net cash (used in) investing activities	\$ (109,708)	\$ (116,318)
 <b>Cash Flows from Financing Activities</b>		
Proceeds from capital lease receivable	\$ 51,043	\$ 50,041
Principal payments on notes payable	(12,934)	(12,542)
Net cash provided by financing activities	\$ 38,109	\$ 37,499
 Net increase in cash and cash equivalents	\$ 55,856	\$ 12,386
 <b>Cash and Cash Equivalents</b>		
Beginning	155,506	143,120
Ending	\$ 211,362	\$ 155,506
 <b>Supplemental Disclosures of Cash Flow Information,</b>		
cash paid for interest	\$ 1,002	\$ 1,395

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, 2018 and 2017.

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 \$14,656 and \$22,867 for the years ended June 30, 2018 and 2017, 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 \$83,952 and \$86,053 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, 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 for its year ended June 30, 2021. Early adoption is permitted. The Organization is currently evaluating the impact that the adoption of Topic 842 will have on its financial statements.

In June 2018, the FASB issued Accounting Standards Update No. 2018-08, Not-for-Profit Entities (Topic 958), which clarifies the scope and the accounting guidance for contributions received and contributions made. Specifically, the update assists entities in determining whether a transaction should be accounted for as a contribution or an exchange transaction. If a transaction is accounted for as an exchange transaction, other accounting guidance, for example, in Topic 606, Revenue from Contracts with Customers, should be followed. If, however, a transaction is accounted for as a contribution, guidance in Subtopic 958-605 should be followed. Additionally, the update assists entities in determining whether a contribution is conditional. ASU 2018-08 is effective for contributions received by the Organization for its year ended June 30, 2020. ASU 2018-08 is effective for contributions made, if applicable, by the Organization for its year ended June 30, 2021. Early adoption is permitted. The Organization is currently evaluating the impact that the adoption of Topic 958 will have on its financial statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), which provides guidance for recognizing revenue from contracts with customers. The core principle of ASU 2014-09 is that revenue will be recognized when promised goods or services are transferred to customers in an amount that reflects consideration for which entitlement is expected in exchange for those goods or services. Generally, the ASU states that revenue should be recognized by following a five step process which include identifying the contract with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligation in the contract, and recognizing revenue as the entity satisfies a performance obligation. ASU 2014-09 is effective for the Organization for its year ended June 30, 2020. The Organization is currently evaluating the impact that the adoption of Topic 606 will have on its financial statements.

## Notes to 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 for its year ended 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, 2018 and 2017, land, buildings and equipment consisted of the following:

	<u>2018</u>	<u>2017</u>
Building improvements	\$ 36,528	\$ 15,398
Equipment	459,856	419,392
Furniture and fixtures	<u>460,675</u>	<u>459,676</u>
	\$ 957,059	\$ 894,466
Less accumulated depreciation	<u>(637,899)</u>	<u>(557,369)</u>
	<u>\$ 319,160</u>	<u>\$ 337,097</u>

### Note 4. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2018 and 2017 were available for the following purposes:

	<u>2018</u>	<u>2017</u>
Collection development	\$ 5,000	\$ 10,000
Issuance of new library cards - Gins Estate	9,656	10,047
Retirement celebration for director	--	1,720
Purchase of sphero balls	--	1,000
Children's garden tree replacement	--	100
	<u>\$ 14,656</u>	<u>\$ 22,867</u>

## Notes to Financial Statements

Net assets during the years ended June 30, 2018 and 2017 were released from donor restrictions by incurring expenses satisfying restricted purposes or by occurrence of other events specified by donors.

	<b>2018</b>	<b>2017</b>
Collection development	\$ 5,000	\$ 5,000
Issuance of new library cards - Gins Estate	391	2,033
Retirement celebration for director	1,720	--
Purchase of sphero balls	1,000	--
Children's garden tree replacement	100	--
	\$ 8,211	\$ 7,033

### **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 \$28,402 and \$29,720 to the plan for the years ending June 30, 2018 and 2017, respectively.

### **Note 6. Note Payable**

Note payable at June 30, 2018 and 2017, consisted of the following.

	<b>2018</b>	<b>2017</b>
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.	\$ 29,248	\$ 42,182

Aggregate maturities of the note payable are as follows: 2019, \$13,285; 2020, \$13,661; and 2021, \$2,302.

### **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.

## Notes to Financial Statements

### 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 \$18,005 and \$3,000 to the Library for the years ended June 30, 2018 and 2017, respectively.

### 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, 2018 are as follows:

#### Year Ending June 30:

2019		\$	53,103
Imputed interest at 2%			(1,041)
			\$ 52,062

### Note 11. Investments

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

	2018		2017	
	Cost	Market Value	Cost	Market Value
Cash reserves	\$ 34,684	\$ 34,684	\$ 7,096	\$ 7,096
Corporate equity securities	353,882	420,216	313,501	366,940
Mutual funds	188,645	204,669	198,805	213,207
	\$ 577,211	\$ 659,569	\$ 519,402	\$ 587,243

## 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, 2018 and 2017:

	2018		
	Level 1	Level 2	Level 3
Cash reserves	\$ 34,684	\$ --	\$ --
Corporate equity securities	420,216	--	--
Mutual funds	204,669	--	--
	\$ 659,569	\$ --	\$ --
	2017		
	Level 1	Level 2	Level 3
Cash reserves	\$ 7,096	\$ --	\$ --
Corporate equity securities	366,940	--	--
Mutual funds	213,207	--	--
	\$ 587,243	\$ --	\$ --

### Note 13. Prior Period Adjustment

For the fiscal year ended June 30, 2017, the Library recorded a prior period adjustment to record compensated absences. This resulted in a decrease of previously reported unrestricted net assets in the Statement of Financial Position and a decrease in the change in unrestricted net assets in the Statement of Activities of \$9,271.

### Note 14. Reclassification

The Library reclassified the prior year presentation of expenses in the Statement of Activities. In order to more accurately reflect the nature of the expense, \$11,630 was reclassified from maintenance service and supplies to automated systems. There was no net effect on total expenses or change in net assets.

### Note 15. Subsequent Events

The Library has evaluated all events through November 12, 2018, the date the financial statements were available to be issued. The Library has determined there are no subsequent events that require recognition or disclosure.