

**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**  
**WITH REPORT OF**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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## **Independent Auditors' Report**

Board of Directors  
Desert Foothills Library Association  
Cave Creek, Arizona

We have audited the accompanying financial statements of Desert Foothills Library Association, (a nonprofit organization) which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to 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 audit. We conducted our audit 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 from 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 the 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 Desert Foothills Library Association as of June 30, 2014, and the changes in its net assets and its cash flows for th year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Hinton Burdick, PLLC".

HintonBurdick, PLLC  
Flagstaff, Arizona  
December 11, 2014

**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**Statement of Financial Position**  
**June 30, 2014**

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**Assets**

Cash and cash equivalents	\$ 406,100
Investments	2,467,150
Allowance for investment impairment	(104,002)
Accounts Receivable	2,000
Temporarily restricted cash	29,103
Permanently restricted investment	33,869
Property and equipment, net	<u>3,727,054</u>

**Total assets** \$ 6,561,274

**Liabilities**

Accounts payable	<u>\$ 18,290</u>
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Total liabilities 18,290

**Net Assets**

Unrestricted	6,480,012
Temporarily restricted	29,103
Permanently restricted	<u>33,869</u>

Total net assets 6,542,984

**Total liabilities and net assets** \$ 6,561,274

The accompanying notes are an integral part of the financial statements.

**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**Statement of Activities**  
**For the Year Ended June 30, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues, gains, and other support:</b>				
Contributions	\$ 304,518	\$ 1,000	\$ -	\$ 305,518
Contributions - special projects	-	7,901	-	7,901
Grants	98,327	19,562	-	117,889
Special events	105,408	-	-	105,408
Fees	58,187	-	-	58,187
Fines	12,444	-	-	12,444
Interest income	1,565	-	-	1,565
Investment return, net of expenses of \$11,995	330,656	-	293	330,949
Rental income	5,403	-	-	5,403
Cell tower income	59,346	-	-	59,346
Miscellaneous income	10,716	-	-	10,716
Library Assistance Program	100,457	-	-	100,457
Fundraising - Friends of Desert Foothills Library Association	129,251	-	-	129,251
Net assets released from restrictions: Restrictions satisfied by payment	9,792	(9,792)	-	-
<b>Total revenues, gains and other support</b>	<u>1,226,070</u>	<u>18,671</u>	<u>293</u>	<u>1,245,034</u>
<b>Expenses and losses:</b>				
Program services	691,558	-	-	691,558
Supporting services				
Fundraising expenses	60,038	-	-	60,038
General operating	67,053	-	-	67,053
<b>Total expenses</b>	<u>818,649</u>	<u>-</u>	<u>-</u>	<u>818,649</u>
Impairment loss	25,229	-	-	25,229
<b>Total expenses and losses</b>	<u>843,878</u>	<u>-</u>	<u>-</u>	<u>843,878</u>
<b>Change in net assets</b>	382,192	18,671	293	401,156
<b>Net assets at beginning of year</b>	<u>6,130,494</u>	<u>10,432</u>	<u>33,576</u>	<u>6,174,502</u>
<b>Prior Period Adjustment</b>	<u>(32,674)</u>	<u>-</u>	<u>-</u>	<u>(32,674)</u>
<b>Net assets at end of year</b>	<u>\$ 6,480,012</u>	<u>\$ 29,103</u>	<u>\$ 33,869</u>	<u>\$ 6,542,984</u>

The accompanying notes are an integral part of the financial statements.

**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**Statement of Functional Expenses**  
**For the Year Ended June 30, 2014**

Expense category	Program Services	Supporting Services		Total
		Fundraising	General Operating	
Special projects	\$ 11,301	\$ -	\$ -	\$ 11,301
Book, DVD and CD purchases	56,723	-	-	56,723
Book repair	2,819	-	-	2,819
Periodical expense	4,786	-	-	4,786
Adult and youth program expense	10,495	-	-	10,495
Salaries	258,936	18,718	34,317	311,971
Payroll tax	21,450	1,551	2,842	25,843
Accounting	-	-	5,335	5,335
Computer expense	5,397	771	1,542	7,710
Professional dues	1,260	-	-	1,260
Depreciation	148,230	-	3,025	151,255
Insurance	14,954	880	1,759	17,593
Maintenance	52,671	-	1,075	53,746
Postage	797	3,026	1,485	5,308
Supplies	13,378	13,730	8,096	35,204
Passport expenses	4,410	-	-	4,410
Gala expense	-	17,622	-	17,622
Utilities	39,403	-	804	40,207
Credit card fees and expenses	4,438	-	-	4,438
Bank charges	-	-	118	118
Volunteer appreciation	3,699	412	-	4,111
Public relations	12,270	-	-	12,270
Staff education	849	-	-	849
Miscellaneous expense	23,292	3,328	6,655	33,275
<b>Total</b>	<b>\$ 691,558</b>	<b>\$ 60,038</b>	<b>\$ 67,053</b>	<b>\$ 818,649</b>

The accompanying notes are an integral part of the financial statements.

**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2014**

<b>Cash flows from operating activities:</b>	
Cash received from general undesignated contributions	\$ 302,518
Cash received from grants	117,889
Cash received from restricted contributions	8,901
Cash received from fundraising	234,659
Cash received from program contributions and revenue	246,603
Cash received from interest	1,565
Cash paid for program expenses	(543,328)
Cash paid for fundraising	(60,038)
Cash paid for management and general expenses	(64,509)
	<u>244,260</u>
<b>Cash flows from investing activities:</b>	
Proceeds from the sale of investments	255,414
Purchases of investments	(518,115)
Endowment investment interest and dividends	74,697
Investment expenses	(11,995)
Acquisition of property and equipment	(22,258)
	<u>(222,257)</u>
Net cash flows from investing activities	<u>(222,257)</u>
<b>Net change in cash and cash equivalents</b>	22,003
<b>Cash and cash equivalents, including restricted cash, beginning of year</b>	<u>413,200</u>
<b>Cash and cash equivalents, including restricted cash, end of year</b>	<u><u>\$ 435,203</u></u>
<b>Reconciliation of change in net assets to net cash flows from operating activities:</b>	
Change in net assets	\$ 401,156
Adjustments to reconcile change in net assets to net cash flows from operating activities	
Depreciation	151,255
Net realized and unrealized (gain) loss on investments	(243,018)
Endowment investment interest and dividends	(74,697)
Investment expenses	11,995
Partnership income	(25,229)
Impairment loss	25,229
Changes in operating assets and liabilities:	
(Increase)/decrease in accounts receivable	(2,000)
(Increase)/decrease in gift certificates	50
Increase/(decrease) in accounts payable	(481)
	<u>(481)</u>
Net cash flows from operating activities	<u><u>\$ 244,260</u></u>

The accompanying notes are an integral part of the financial statements.



**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**Notes to the Financial Statements**  
**June 30, 2014**

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**NOTE 1. Significant Accounting Policies**

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Nature of Activities

Desert Foothills Library Association (the Association) is a non-profit, tax-exempt corporation organized in June, 1975, to operate the Desert Foothills Library in Cave Creek, Arizona, for the benefit of the residents of Cave Creek, Carefree and the surrounding areas. The majority of the Association's revenue traditionally has been received by donations from residents and supportive organizations. The services to the public are provided by professional librarians, paid staff and many volunteers.

Included in operations of the Association is a book store run by The Friends of the Library. The Friends of the Library is a committee governed by the same board as the Association and are under the same Section 501(c)3 application of the internal revenue code.

Basis of Accounting

The financial statements of the Association have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Under generally accepted accounting principles, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in bank and highly liquid investments with maturity dates of less than three months for purposes of this note and the statement of cash flows. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. The unrealized gain or loss on investments is reflected in the statement of activities.

**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**Notes to the Financial Statements**  
**June 30, 2014**

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**NOTE 1. Significant Accounting Policies (Continued)**

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Inventory

The Association has inventory on hand consisting of donated library books available for sale. Generally accepted accounting principles state that donated inventory should be recorded at fair market value on the date of the donation. The Association does not have a formal process for recording inventory when donated and the inventory is currently deemed immaterial to the financial statements as a whole. Therefore, inventory has not been recorded.

Property and Equipment

Property and equipment are stated at cost, or if donated, at the fair market value at the date of the gift. However, the costs of books are expensed as purchased due to obsolescence and wear and tear. The Association depreciates its property and equipment over the estimated useful lives of the assets using the straight-line method. Useful lives range from 5 years for computer equipment up to 40 years for selected real property.

The Association capitalizes long-term assets with a cost of \$500 or more. Maintenance and repairs are charged to expense, and renewals and improvements are capitalized. When depreciable property is retired or disposed of, the related costs and accumulated depreciation are moved from the accounts, and any gain or loss is included in the operations.

Works of Art

The Association has several donated works of art on display in the Library. It is the Association's policy to not capitalize these items.

Revenue Recognition

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are reported as increases in temporarily restricted or permanently net assets, depending on the nature of the restriction. When a 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.

Contributed Services

The Association receives a substantial amount of services donated by the community in carrying out its functions. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition under generally accepted accounting principles.

**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**Notes to the Financial Statements**  
**June 30, 2014**

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**NOTE 1. Significant Accounting Policies (Continued)**

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Concentration of Credit Risk

The Association holds a significant portfolio of investments and cash in various financial instruments. Some of the investments are subject to market value fluctuations. The investments are held in accounts not insured by the Federal Deposit Insurance Corporation. Several cash accounts are maintained at one bank in Arizona. Of the \$455,860 bank balance at June 30, 2014, \$186,296 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Income Taxes

No amounts have been paid or accrued for income taxes as the Association is a nonprofit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Date of Management's Review

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through December 11, 2014, the date the financial statements were available to be issued.

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**NOTE 2. Investments**

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Investments consist of the following as of June 30, 2014:

Money funds	\$ 163,535
Bond funds	584,848
Equity funds	1,647,634
Partnership	<u>105,002</u>
	<u>\$ 2,501,019</u>

**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**Notes to the Financial Statements**  
**June 30, 2014**

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**NOTE 2. Investments (Continued)**

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Investments is shown on the statement of financial position as follows:

Investments	\$ 2,467,150
Permanently restricted investment	<u>33,869</u>
	<u>\$ 2,501,019</u>

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

*Level 1* – Quoted prices for identical instruments in active markets.

*Level 2* – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs are observable in active markets.

*Level 3* – Valuations derived from valuation techniques in which one or more significant inputs are not observable.

The Association attempts to establish fair value as an exit price in an orderly transaction consistent with normal settlement market conventions. The Association is responsible for the valuation process and seeks to obtain market prices for all securities.

Money funds consist of US Treasury investments and are categorized in Level 1 of the fair value hierarchy.

Bond fund is comprised of mutual bond funds and is valued using quoted market prices and accordingly, are categorized in Level 1 of fair value hierarchy.

Common stocks are valued based on quoted prices from an exchange. To the extent these securities are actively traded, valuation adjustments are applied and they are categorized in Level 1 of the fair value hierarchy.

As there is no ready market for the partnership investment, the stated value is based on the equity method of accounting. Since the partnership has a calendar year end and the only readily available information is for calendar year 2013, the Association has elected to record the partnership investment value as of December 31 each year. Also, modest distributions are expected from the partnership investment in the foreseeable future, thus an allowance for impairment of \$104,002 is recorded to adjust for management's estimate of the fair market value of the investment.

**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**Notes to the Financial Statements**  
**June 30, 2014**

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**NOTE 2. Investments (Continued)**

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Net investment return consists of the following:	Unrestricted	Permanently Restricted
Interest and dividend income	\$ 74,697	\$ -
Net realized and unrealized gain on investments	242,725	293
Investment expenses	(11,995)	-
Partnership income	25,229	-
	\$ 330,656	\$ 293

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**NOTE 3. Property and Equipment**

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Property and equipment consist of the following at June 30, 2014:

Land and improvements	\$ 67,548
Buildings and improvements	4,401,423
Furniture, equipment, and fixtures	404,866
	4,873,837
Accumulated depreciation	(1,146,783)
	\$ 3,727,054

Depreciation expense for the year was \$151,255.

**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**Notes to the Financial Statements**  
**June 30, 2014**

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**NOTE 4.      Temporarily Restricted Net Assets**

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Temporarily restricted net assets consist of the following at June 30, 2014:

Kiwanis - R.I.F.	\$ 1,901
Laurie - Western & Large Print	3,495
Deely history book fund	84
Miscellaneous projects	831
Teen E Readers	1,176
Bill Graham Audio Fund	6,726
Andrew & Wan Kim Foreign Movies	351
Good Shepherd of the Hills - Youth	700
LSTA - AV	8,943
LSTA - Film	3,757
Target Children's Grant	1,139
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	\$ 29,103
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Net assets released from restrictions due to payment were:

Special projects	\$ 9,792
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	\$ 9,792
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**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**Notes to the Financial Statements**  
**June 30, 2014**

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**NOTE 5. Endowments**

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Board-Designated Endowment

As of June 30, 2014, the Board of Directors had designated \$2,358,049 of unrestricted net assets as a general endowment fund to support the future operations of the Association. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

The Association has adopted a spending policy of appropriating for distribution: the payment in the fiscal year may not exceed 3.5% of the average value of the unrestricted endowment at the end of each of the 12 quarters ending at the close of the previous fiscal year. The Association's objective is to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

To achieve that objective, endowment assets are invested in a diversified mix of debt and equity securities that is intended to achieve a consistent inflation-protected return with an acceptable level of risk while maintaining sufficient liquidity to allow distributions as required from time to time by the Board of Directors. Actual returns in any given year may vary.

Composition of and changes in board-designated endowment net assets for the year ended June 30, 2014, were as follows:

Board-designated endowment net assets, beginning of year	\$ 1,856,721
Additions	200,000
Net investment return	301,328
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Board-designated endowment net assets, end of year	<u><u>\$ 2,358,049</u></u>

**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**Notes to the Financial Statements**  
**June 30, 2014**

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**NOTE 5. Endowments (Continued)**

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Donor-Restricted Endowment

Permanently restricted net assets at June 30, 2014, consist of an endowment fund established in 2013 to support current operations of the Association. Contributions to the endowment fund are subject to donor restrictions that stipulate the original principal of the gift is to be held and invested by the Association indefinitely and income from the fund is to be expended for current operations. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Association has interpreted the Arizona Management of Charitable Funds Act, Arizona's version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment funds
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

The Association has not adopted a spending policy of appropriating for distribution. The Association's objective is to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

To achieve that objective, endowment assets are invested in a diversified mix of equity securities that is intended to achieve a consistent inflation-protected return with an acceptable level of risk while maintaining sufficient liquidity to allow distributions as required from time to time by the Board of Directors. Actual returns in any given year may vary.



**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**Notes to the Financial Statements**  
**June 30, 2014**

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**NOTE 5. Endowments (Continued)**

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Composition of and changes in donor-restricted endowment net assets for the year ended June 30, 2014, were as follows:

	<u>Permanently Restricted</u>
Endowment net assets, beginning of year	\$ 33,576
Adjustment to market	<u>293</u>
Endowment net assets, end of year	<u>\$ 33,869</u>

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**NOTE 6. Prior Period Adjustment**

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Inventory

Due to administrative burdens, materiality considerations, and the difficulty in estimating a fair market value on the date of donation, the Association has elected not to record the value of the inventory. In the current period the Association removed the recorded inventory value on hand with a corresponding decrease in net assets of \$32,674.