

DESERT FOOTHILLS LIBRARY ASSOCIATION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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Independent Auditor's Report

To the Board of Directors of
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, 2017, 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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "HintonBurdick Arizona PLLC".

HintonBurdick Arizona, PLLC
Flagstaff, AZ
October 6, 2017

DESERT FOOTHILLS LIBRARY ASSOCIATION
Statement of Financial Position
June 30, 2017

Assets

Cash and cash equivalents	\$ 227,322
Investments	3,188,649
Temporarily restricted cash	8,308
Permanently restricted investment	33,869
Property and equipment, net	<u>4,382,889</u>

Total assets \$ 7,841,037

Liabilities

Accounts payable	\$ 64,537
Retainage payable	<u>44,930</u>

Total liabilities 109,467

Net Assets

Unrestricted	7,689,393
Temporarily restricted	8,308
Permanently restricted	<u>33,869</u>

Total net assets 7,731,570

Total liabilities and net assets \$ 7,841,037

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

DESERT FOOTHILLS LIBRARY ASSOCIATION
Statement of Activities
For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Contributions	\$ 326,278	\$ -	\$ -	\$ 326,278
Contributions - special projects	9,890	374,182	-	384,072
Grants and bequests	976,197	8,677	-	984,874
Special events	122,635	-	-	122,635
Fees	59,602	-	-	59,602
Fines	7,534	-	-	7,534
Interest income	576	-	-	576
Investment return, net of expenses of \$10,607	200,050	-	-	200,050
Rental income	9,781	-	-	9,781
Cell tower income	70,283	-	-	70,283
Miscellaneous income	18,070	-	-	18,070
Library Assistance Program	56,822	-	-	56,822
Fundraising - Friends of Desert Foothills Library Association	115,168	-	-	115,168
Net assets released from restrictions: Restrictions satisfied by payment	382,056	(382,056)	-	-
 Total revenues, gains and other support	 <u>2,354,942</u>	 <u>803</u>	 <u>-</u>	 <u>2,355,745</u>
Expenses and losses:				
Program services	767,550	-	-	767,550
Supporting services				
Fundraising expenses	83,489	-	-	83,489
General operating	76,999	-	-	76,999
Total expenses and losses	<u>928,038</u>	<u>-</u>	<u>-</u>	<u>928,038</u>
 Change in net assets	 1,426,904	 803	 -	 1,427,707
 Net assets at beginning of year	 <u>6,262,489</u>	 <u>7,505</u>	 <u>33,869</u>	 <u>6,303,863</u>
 Net assets at end of year	 <u>\$ 7,689,393</u>	 <u>\$ 8,308</u>	 <u>\$ 33,869</u>	 <u>\$ 7,731,570</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, 2017

Expense category	Program Services	Supporting Services		Total
		Fundraising	General Operating	
Special projects	\$ 7,776	\$ -	\$ -	\$ 7,776
Book, DVD and CD purchases	66,939	-	-	66,939
Book repair	4,261	-	-	4,261
Periodical expense	4,547	-	-	4,547
Adult and youth program expense	24,685	-	-	24,685
Salaries and benefits	324,047	23,425	42,946	390,418
Payroll tax	31,047	2,244	4,115	37,406
Accounting	-	-	5,000	5,000
Computer expense	5,294	756	1,513	7,563
Professional dues	395	-	-	395
Depreciation	149,613	-	3,053	152,666
Insurance	15,654	921	1,842	18,417
Maintenance	44,388	-	906	45,294
Postage	1,572	5,974	2,935	10,481
Supplies	20,754	21,301	12,562	54,617
Passport expenses	4,315	-	-	4,315
Gala expense	-	27,799	-	27,799
Utilities	38,109	-	778	38,887
Credit card fees and expenses	5,091	-	-	5,091
Bank and investments charges	-	-	21	21
Volunteer appreciation	3,642	405	-	4,047
Public relations	10,462	-	-	10,462
Staff education	313	-	-	313
Miscellaneous expense	4,646	664	1,328	6,638
Total	\$ 767,550	\$ 83,489	\$ 76,999	\$ 928,038

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, 2017

Cash flows from operating activities:	
Cash received from general undesignated contributions	\$ 336,168
Cash received from grants and bequests	984,874
Cash received from restricted contributions	374,182
Cash received from fundraising	237,803
Cash received from program contributions and revenue	222,102
Cash received from interest	576
Cash paid for program expenses	(617,937)
Cash paid for fundraising	(83,489)
Cash paid for management and general expenses	<u>(40,055)</u>
Net cash flows from operating activities	<u>1,414,224</u>
Cash flows from investing activities:	
Proceeds from the sale of investments	305,540
Purchases of investments	(1,061,771)
Endowment investment interest and dividends	48,463
Investment expenses	(10,607)
Acquisition of property and equipment	<u>(965,299)</u>
Net cash flows from investing activities	<u>(1,683,674)</u>
Net change in cash and cash equivalents	(269,450)
Cash and cash equivalents, including restricted cash, beginning of year	<u>505,080</u>
Cash and cash equivalents, including restricted cash, end of year	<u><u>\$ 235,630</u></u>
Reconciliation of change in net assets to net cash flows from operating activities:	
Change in net assets	\$ 1,427,707
Adjustments to reconcile change in net assets to net cash flows from operating activities	
Depreciation	152,666
Net realized and unrealized (gain) loss on investments	(162,194)
Endowment investment interest and dividends	(48,463)
Investment expenses	10,607
Changes in operating assets and liabilities:	
Increase/(decrease) in accounts payable	<u>33,891</u>
Net cash flows from operating activities	<u><u>\$ 1,414,224</u></u>

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

DESERT FOOTHILLS LIBRARY ASSOCIATION
Notes to the Financial Statements
June 30, 2017

NOTE 1. Significant Accounting Policies

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 the operations of the Association is a book store run by volunteers governed by the same board as the Association and 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, 2017

NOTE 1. Significant Accounting Policies (Continued)

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, 2017

NOTE 1. Significant Accounting Policies (Continued)

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 \$464,780 bank balance at June 30, 2017, \$214,780 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.

The Association's Forms 990, Return of Organization Exempt from Income Tax, for the years ending 2015, 2016, and 2017 are subject to examination by the IRS, generally for three years after they were filed.

Date of Management's Review

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through October 6, 2017, the date the financial statements were available to be issued.

NOTE 2. Investments

Investments consist of the following as of June 30, 2017:

Money funds	\$ 949,282
Bond funds	723,181
Equity funds	1,548,747
REIT	308
Partnership	1,000
	<u>\$ 3,222,518</u>

DESERT FOOTHILLS LIBRARY ASSOCIATION
Notes to the Financial Statements
June 30, 2017

NOTE 2. Investments (Continued)

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

Investments	\$ 3,188,649
Permanently restricted investment	<u>33,869</u>
	<u><u>\$ 3,222,518</u></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.

REIT are valued based on quoted prices from an exchange. To the extent they 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 management's estimate of the fair market value of the investment. The ending capital account balance per the calendar year 2016 Schedule K-1 is (\$432,822).

DESERT FOOTHILLS LIBRARY ASSOCIATION
Notes to the Financial Statements
June 30, 2017

NOTE 2. Investments (Continued)

Net investment return consists of the following:	<u>Unrestricted</u>
Interest and dividend income	\$ 48,463
Net realized and unrealized gain on investments	162,194
Investment expenses	<u>(10,607)</u>
	<u>\$ 200,050</u>

NOTE 3. Property and Equipment

Property and equipment consist of the following at June 30, 2017:

Land and improvements	\$ 67,548
Buildings and improvements	4,404,225
Furniture, equipment, and fixtures	432,279
Construction in progress	<u>1,079,943</u>
	5,983,995
Accumulated depreciation	<u>(1,601,106)</u>
	<u>\$ 4,382,889</u>

Depreciation expense for the year was \$152,666.

DESERT FOOTHILLS LIBRARY ASSOCIATION
Notes to the Financial Statements
June 30, 2017

NOTE 4. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30, 2017:

TEI Landmark Sensory Grant	\$ 508
Kiwanis - Children	785
Laurie - Western & Large Print	2,826
Desert Foothills woman's club	1,800
Teen E Readers	764
Kiwanis - Coding Program	<u>1,625</u>
	<u>\$ 8,308</u>

Net assets released from restrictions due to payment were:

Special projects	<u>\$ 382,056</u>
	<u>\$ 382,056</u>

DESERT FOOTHILLS LIBRARY ASSOCIATION
Notes to the Financial Statements
June 30, 2017

NOTE 5. Endowments

Board-Designated Endowment

As of June 30, 2017, the Board of Directors had designated \$2,665,507 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 for operating expenses, if needed, 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. Any amount needed for capital projects must be voted on by the board. 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, 2017, were as follows:

Board-designated endowment net assets, beginning of year	\$ 2,246,877
Additions	229,100
Net investment return	189,530
	<hr/>
Board-designated endowment net assets, end of year	<u><u>\$ 2,665,507</u></u>

DESERT FOOTHILLS LIBRARY ASSOCIATION
Notes to the Financial Statements
June 30, 2017

NOTE 5. Endowments (Continued)

Donor-Restricted Endowment

Permanently restricted net assets at June 30, 2017, 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 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, 2017

NOTE 5. Endowments (Continued)

Composition of and changes in donor-restricted endowment net assets for the year ended June 30, 2017, were as follows:

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