DESERT FOOTHILLS LIBRARY ASSOCIATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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HINTONBURDICK
CPAs & ADVISORS

Independent Accountants' Review Report

To the Board of Directors of
Desert Foothills Library Association
Cave Creek, Arizona

We have reviewed the accompanying financial statements of Desert Foothills Library Association (a nonprofit organization) which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

HintonBurdick, PLLC

HintonBurdick, PLLC
Gilbert, Arizona
April 25, 2019

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DESERT FOOTHILLS LIBRARY ASSOCIATION
Statement of Financial Position
June 30, 2018

Assets		
Cash and cash equivalents	$	478,835
Investments		2,315,408
Temporarily restricted cash		13,711
Permanently restricted investment		33,869
Property and equipment, net		5,794,202
Total assets	$	8,636,025
Liabilities		
Accounts payable	$	67,000
Total liabilities		67,000
Net Assets		
Unrestricted		8,521,445
Temporarily restricted		13,711
Permanently restricted		33,869
Total net assets		8,569,025
Total liabilities and net assets	$	8,636,025

See independent accountants' review report.
The accompanying notes are an integral part of the financial statements.

DESERT FOOTHILLS LIBRARY ASSOCIATION
Statement of Activities
For the Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:				
Contributions	$ 271,402	$ -	$ -	$ 271,402
Contributions - special projects	650	851,593	-	852,243
Grants and bequests	111,565	7,570	-	119,135
Special events	127,965	-	-	127,965
Fees	55,519	-	-	55,519
Fines	7,051	-	-	7,051
Interest income	515	-	-	515
Investment return, net of expenses of $15,354	127,647	-	-	127,647
Rental income	9,292	-	-	9,292
Cell tower income	63,141	-	-	63,141
Miscellaneous income	13,625	-	-	13,625
Library Assistance Program	64,273	-	-	64,273
Fundraising - Friends of Desert Foothills Library Association	114,029	-	-	114,029
Net assets released from restrictions:				
Restrictions satisfied by payment	853,760	(853,760)	-	-
Total revenues, gains and other support	1,820,434	5,403	-	1,825,837
Expenses and losses:				
Program services	809,608	-	-	809,608
Supporting services				
Fundraising expenses	86,488	-	-	86,488
General operating	85,262	-	-	85,262
Total expenses	981,358	-	-	981,358
Loss on disposal of assets	7,024	-	-	7,024
Total expenses and losses	988,382	-	-	988,382
Change in net assets	832,052	5,403	-	837,455
Net assets at beginning of year	7,689,393	8,308	33,869	7,731,570
Net assets at end of year	$ 8,521,445	$ 13,711	$ 33,869	$ 8,569,025

See independent accountants' review report.
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, 2018

		Supporting Services		
Expense category	**Program Services**	**Fundraising**	**General Operating**	**Total**
Special projects	$ 9,303	$ -	$ -	$ 9,303
Book, DVD and CD purchases	71,428	-	-	71,428
Book repair	2,000	-	-	2,000
Periodical expense	2,970	-	-	2,970
Adult and youth program expense	23,839	-	-	23,839
Golf tournament expense	-	8,094	-	8,094
Salaries and benefits	353,365	25,544	46,832	425,741
Payroll tax	25,618	1,852	3,395	30,865
Accounting	-	-	11,350	11,350
Computer expense	6,316	902	1,805	9,023
Depreciation	154,360	-	3,150	157,510
Insurance	18,735	1,102	2,204	22,041
Maintenance	40,950	-	836	41,786
Postage	1,677	6,372	3,130	11,179
Supplies	12,110	12,429	7,330	31,869
Passport expenses	3,660	-	-	3,660
Gala expense	-	27,859	-	27,859
Utilities	47,048	-	960	48,008
Credit card fees and expenses	4,250	-	-	4,250
Bank and investments charges	-	-	263	263
Volunteer appreciation	2,966	330	-	3,296
Public relations	13,959	-	-	13,959
Staff education	1,029	-	-	1,029
Miscellaneous expense	14,025	2,004	4,007	20,036
Total	$ 809,608	$ 86,488	$ 85,262	$ 981,358

See independent accountants' review report.
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, 2018

Cash flows from operating activities:		
Cash received from general undesignated contributions	$	272,052
Cash received from grants and bequests		119,135
Cash received from restricted contributions		851,593
Cash received from fundraising		241,994
Cash received from program contributions and revenue		212,901
Cash received from interest		515
Cash paid for program expenses		(655,248)
Cash paid for fundraising		(86,488)
Cash paid for management and general expenses		(79,650)
Net cash flows from operating activities		876,804
Cash flows from investing activities:		
Proceeds from the sale of investments		2,819,016
Purchases of investments		(1,878,253)
Endowment investment interest and dividends		75,479
Investment expenses		(15,354)
Acquisition of property and equipment		(1,620,776)
Net cash flows from investing activities		(619,888)
Net change in cash and cash equivalents		256,916
Cash and cash equivalents, including restricted cash, beginning of year		235,630
Cash and cash equivalents, including restricted cash, end of year	$	492,546

Reconciliation of change in net assets to net cash flows from operating activities:		
Change in net assets	$	837,455
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation		157,510
Net realized and unrealized (gain) loss on investments		(67,522)
Endowment investment interest and dividends		(75,479)
Investment expenses		15,354
Loss on sale of assets		7,024
Changes in operating assets and liabilities:		
Increase/(decrease) in accounts payable		2,462
Net cash flows from operating activities	$	876,804

See independent accountants' review report.
The accompanying notes are an integral part of the financial statements.

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.

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.

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 $512,423 bank balance at June 30, 2018, $262,423 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 2016, 2017, and 2018 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 April 25, 2019, the date the financial statements were available to be issued.

NOTE 2. Investments

Investments consist of the following as of June 30, 2018:

Money funds	$ 23,596
Bond funds	289,263
Equity funds	1,147,521
ETF	887,607
REIT	290
Partnership	1,000
	$ 2,349,277

NOTE 2. Investments (Continued)

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

Investments	$ 2,315,408
Permanently restricted investment	33,869
	$ 2,349,277

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.

Equity funds 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.

Exchange traded funds are valued based on quoted prices from an exchange and accordingly, 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 2017 Schedule K-1 is ($444.312).

NOTE 2. Investments (Continued)

Net investment return consists of the following:	Unrestricted
Interest and dividend income	$ 75,479
Net realized and unrealized gain on investments	67,522
Investment expenses	(15,354)
	$ 127,647

NOTE 3. Property and Equipment

Property and equipment consist of the following at June 30, 2018:

Land and improvements	$ 2,167,925
Buildings and improvements	4,691,816
Furniture, equipment, and fixtures	660,754
	7,520,495
Accumulated depreciation	(1,726,293)
	$ 5,794,202

Depreciation expense for the year was $157,510.

NOTE 4. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30, 2018:

TEI Landmark Sensory Grant	$	384
Kiwanis - Children		564
Owings Funds		5,341
Desert Foothills woman's club		1,800
LSTA Grant - Gift Children		700
Mahjong Funds		2,570
Teen E Readers		764
Lego's		180
Kiwanis - Coding Program		1,408
	$	13,711

Net assets released from restrictions due to payment were:

Special projects	$	853,760
	$	853,760

NOTE 5. Endowments

Board-Designated Endowment

As of June 30, 2018, the Board of Directors had designated $2,291,700 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, 2018, were as follows:

Board-designated endowment net assets, beginning of year	$ 2,665,507
Reductions	(493,285)
Net investment return	119,478
Board-designated endowment net assets, end of year	$ 2,291,700

NOTE 5. Endowments (Continued)

Donor-Restricted Endowment

Permanently restricted net assets at June 30, 2018, 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.

NOTE 5. Endowments (Continued)

Composition of and changes in donor-restricted endowment net assets for the year ended June 30, 2018, were as follows:

	Permanently Restricted
Endowment net assets, beginning of year	$ 33,869
Adjustment to market	-
Endowment net assets, end of year	$ 33,869