

**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

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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, 2020, 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, 2020, 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.

*HintonBurdick, PLLC*

HintonBurdick, PLLC  
Gilbert, Arizona  
November 23, 2020

**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**Statement of Financial Position**  
**June 30, 2020**

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**Assets**

Cash and cash equivalents	\$ 335,647
Investments	2,847,319
Accounts receivable	623
Restricted cash and cash equivalents	12,368
Investments held for endowment purposes	2,033,869
Property and equipment, net	<u>5,450,980</u>

**Total assets** \$ 10,680,806

**Liabilities**

Payroll protection loan	<u>\$ 114,000</u>
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Total liabilities 114,000

**Net Assets**

Without donor restrictions:	
Board designated	2,827,122
Undesignated	<u>5,693,447</u>
Total net assets without donor restrictions	8,520,569

With donor restrictions	<u>2,046,237</u>
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Total net assets 10,566,806

**Total liabilities and net assets** \$ 10,680,806

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

**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**Statement of Activities**  
**For the Year Ended June 30, 2020**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenues, gains, and other support:</b>			
Contributions	\$ 346,221	\$ -	\$ 346,221
Contributions - noncash	30,221	-	30,221
Grants and bequests	176,264	46,602	222,866
Special events	132,201	-	132,201
Fees	36,852	-	36,852
Fines	6,725	-	6,725
Investment return	160,480	-	160,480
Rental income	14,592	-	14,592
Cell tower income	66,410	-	66,410
Miscellaneous income	75,689	-	75,689
Library Assistance Program	78,098	-	78,098
Fundraising - Friends of Desert			
Foothills Library Association	83,059	-	83,059
Net assets released from restrictions:			
Restrictions satisfied by payment	35,532	(35,532)	-
	<u>1,242,344</u>	<u>11,070</u>	<u>1,253,414</u>
Total revenues, gains and other support			
<b>Expenses and losses:</b>			
Program services	1,107,089	-	1,107,089
Supporting services			
Fundraising expenses	88,955	-	88,955
General operating	67,456	-	67,456
	<u>1,263,500</u>	<u>-</u>	<u>1,263,500</u>
Total expenses			
<b>Change in net assets</b>	(21,156)	11,070	(10,086)
<b>Net assets at beginning of year</b>	<u>10,541,725</u>	<u>35,167</u>	<u>10,576,892</u>
<b>Restatement adjustment</b>	<u>(2,000,000)</u>	<u>2,000,000</u>	<u>-</u>
<b>Net assets at end of year</b>	<u>\$ 8,520,569</u>	<u>\$ 2,046,237</u>	<u>\$ 10,566,806</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, 2020**

Expense category	Program Services	Supporting Services		Total
		Fundraising	General Operating	
Special projects	\$ 15,541	\$ -	\$ -	\$ 15,541
Book, DVD and CD purchases	97,266	-	-	97,266
Book repair	1,437	-	-	1,437
Dues and subscriptions	229	-	-	229
Adult and youth program expense	29,944	-	-	29,944
Salaries and benefits	475,102	20,434	15,326	510,862
Payroll tax	31,892	2,305	4,227	38,424
Professional services	20,170	-	17,887	38,057
Computer expense	6,293	899	1,798	8,990
Depreciation	251,252	-	5,128	256,380
Insurance	17,458	1,027	2,054	20,539
Maintenance	59,947	-	1,223	61,170
Postage	1,260	4,788	2,352	8,400
Supplies	15,194	15,594	9,196	39,984
Passport expenses	1,606	-	-	1,606
Gala expense	-	40,337	-	40,337
Utilities	38,459	-	785	39,244
Credit card fees and expenses	5,701	-	-	5,701
Bank charges	-	-	699	699
Volunteer appreciation	1,621	180	-	1,801
Public relations	11,338	-	-	11,338
Staff education	1,645	-	-	1,645
Miscellaneous expense	23,734	3,391	6,781	33,906
<b>Total</b>	<b>\$ 1,107,089</b>	<b>\$ 88,955</b>	<b>\$ 67,456</b>	<b>\$ 1,263,500</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, 2020**

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<b>Cash flows from operating activities:</b>	
Cash received from general undesignated contributions	\$ 384,444
Cash received from grants and bequests	2,222,866
Cash received from fundraising	215,260
Cash received from program contributions and revenue	210,879
Cash paid for program expenses	(855,837)
Cash paid for fundraising	(88,955)
Cash paid for management and general expenses	<u>(62,328)</u>
Net cash flows from operating activities	<u>2,026,329</u>
<b>Cash flows from investing activities:</b>	
Proceeds from the sale of investments	1,508,582
Purchases of investments	(3,616,809)
Endowment investment interest and dividends	178,483
Investment expenses	(26,380)
Acquisition of property and equipment	<u>(71,835)</u>
Net cash flows from investing activities	<u>(2,027,959)</u>
<b>Cash flows from financing activities:</b>	
Proceeds from debt	<u>114,000</u>
Net cash flows from financing activities	<u>114,000</u>
<b>Net change in cash, cash equivalents, and restricted cash</b>	112,370
<b>Cash, cash equivalents, and restricted cash, beginning of year</b>	<u>235,645</u>
<b>Cash, cash equivalents, and restricted cash, end of year</b>	<u><u>\$ 348,015</u></u>
<b>Reconciliation of change in net assets to net cash flows from operating activities:</b>	
Change in net assets	\$ (10,086)
Adjustments to reconcile change in net assets to net cash flows from operating activities	
Depreciation	256,380
Net realized and unrealized (gain) loss on investments	(8,377)
Endowment investment interest and dividends	(178,483)
Investment expenses	26,380
Changes in operating assets and liabilities:	
(Increase)/decrease in receivables	8,002
(Increase)/decrease in unconditional promises to give	2,000,000
Increase/(decrease) in accounts payable	<u>(67,487)</u>
Net cash flows from operating activities	<u><u>\$ 2,026,329</u></u>

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

**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**Notes to the Financial Statements**  
**June 30, 2020**

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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 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 two classes of net assets: net assets with donor restrictions, net assets without donor restrictions.

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.

Cost Allocation

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, employee benefits, payroll taxes, and volunteer appreciation, which are allocated on the basis of estimates of time and effort, as well as depreciation, computer expenses, maintenance, supplies, insurance, utilities, and postage, which are allocated based on the estimated use.

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.

**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**Notes to the Financial Statements**  
**June 30, 2020**

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

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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.

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

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. 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. Donations are reported as contributions without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as contributions with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Association reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. 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.

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 restricted or unrestricted depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**Notes to the Financial Statements**  
**June 30, 2020**

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

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Fundraising from Friends of Desert Foothills Library Association is recognized when the customer receives and pays for the merchandise. For online transactions, revenue is recognized when ordered and shipped.

Other charges for services revenue is recognized when the customer receives the service.

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.

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 \$379,842 bank balance at June 30, 2020, \$44,790 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 2018, 2019, and 2020 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 November 23, 2020, the date the financial statements were available to be issued.

New Pronouncements

For the year ended June 30, 2020, the Association implemented the provisions of ASU No. 2014-09, (*Topic 606*): *Revenue from Contracts with Customers* and ASU No. 2018-08 (*Topic 958*), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Adoption of these two new pronouncements did not have a material impact on the Association's financial statements.

**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**Notes to the Financial Statements**  
**June 30, 2020**

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**NOTE 2.      Liquidity and Availability of Financial Assets**

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The following reflects the Association's financial assets available within one year of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Amounts available for general use do not include the board-designated endowment fund the Association could draw upon if the governing board approves that action.

Financial Assets:	
Cash and cash equivalents	\$ 348,015
Investments	4,881,188
Accounts receivable	<u>623</u>
Subtotal	5,229,826
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with purpose restrictions (see Note 6)	(12,368)
Donor-restricted endowment (see Note 7)	(2,033,869)
Board designated endowment (see Note 7)	<u>(2,827,122)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 356,467</u></u>

As part of the Association's liquidity management, it invests cash in excess of daily requirements in various investments. In addition, as disclosed in Note 7, the Association has a board-designated endowment that can be utilized to fill unexpected liquidity needs that may arise in addition to general expenditures. The Association typically has significant cash and cash equivalents to meet cash needs for general expenditures.

**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**Notes to the Financial Statements**  
**June 30, 2020**

**NOTE 3. Cash and Investments**

A reconciliation of cash and cash equivalents as shown on the statement of financial position and statement of cash flows follows:

Cash and cash equivalents	\$ 335,647
Restricted cash and cash equivalents	<u>12,368</u>
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u><u>\$ 348,015</u></u>

Amounts included in restricted cash represent amounts restricted by the donor with purpose restrictions. The restriction will lapse as the purpose restrictions are satisfied.

Investments consist of the following as of June 30, 2020:

Money market funds	\$ 84,521
Bond funds	1,130,521
Equity funds	2,224,086
ETF	1,440,752
REIT	308
Partnership	<u>1,000</u>
	<u><u>\$ 4,881,188</u></u>

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

Investments	\$ 2,847,319
Investments held for endowment purposes	<u>2,033,869</u>
	<u><u>\$ 4,881,188</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.

**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**Notes to the Financial Statements**  
**June 30, 2020**

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**NOTE 3. Cash and Investments (Continued)**

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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 and are categorized as Level 3. The ending capital account balance per the calendar year 2019 Schedule K-1 is \$6,559.

Net investment return consists of the following:

Interest and dividend income	\$ 178,483
Net realized and unrealized gain on investments	8,377
Investment expenses	<u>(26,380)</u>
	<u><u>\$ 160,480</u></u>

**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**Notes to the Financial Statements**  
**June 30, 2020**

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**NOTE 4. Property and Equipment**

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Property and equipment consist of the following at June 30, 2020:

Land and improvements	\$ 2,167,925
Buildings and improvements	4,841,515
Furniture, equipment, and fixtures	<u>669,213</u>
	7,678,653
Accumulated depreciation	<u>(2,227,673)</u>
Property and equipment, net	<u><u>\$ 5,450,980</u></u>

Depreciation expense for the year was \$256,380.



**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**Notes to the Financial Statements**  
**June 30, 2020**

**NOTE 5. Long-Term Liabilities**

The following is a summary of changes in long-term debt for the year ended June 30, 2020.

	<u>Balance 6/30/2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2020</u>	<u>Current Portion</u>
Payroll protection loan	\$ -	\$ 114,000	\$ -	114,000	\$ 50,137
Total long-term debt	<u>\$ -</u>	<u>\$ 114,000</u>	<u>\$ -</u>	<u>\$ 114,000</u>	<u>\$ 50,137</u>

Debt service requirements to maturity are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 50,137	\$ 1,188	\$ 51,325
2022	63,863	292	64,155
Total	<u>\$ 114,000</u>	<u>\$ 1,480</u>	<u>\$ 115,480</u>

Long-Term debt consists of the following debt issue:

\$114,000 loan from Notre Dame Federal Credit Union for the Payroll Protection Program. Interest rate of 1 percent per annum with principal and interest payments due monthly. The term of the note is for 18 months beginning November 30, 2020. This note has the potential to be forgiven, however, the Association has not yet applied for loan forgiveness.

	\$ 114,000
Total debt payable	<u>\$ 114,000</u>

**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**Notes to the Financial Statements**  
**June 30, 2020**

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**NOTE 6. Net Assets With Donor Restrictions**

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Net assets with donor restrictions consist of the following at June 30, 2020:

Subject to purpose restrictions:

Childrens Wing - Deely	\$ 2,103
Creative Women -Tough Topics	525
Kiwanis - Children	200
TEI Landmark Sensory Grant	60
STEAM Grant	1,464
Lego's	142
Large Print Books	<u>7,874</u>
Total subject to purpose restrictions	12,368
Donor-restricted endowment (see Note 7)	<u>2,033,869</u>
Total net assets with donor restrictions	<u><u>\$ 2,046,237</u></u>

Net assets released from restrictions due to payment were:

Special projects	<u>\$ 35,532</u>
	<u><u>\$ 35,532</u></u>

**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**Notes to the Financial Statements**  
**June 30, 2020**

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**NOTE 7. Endowments**

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Board-Designated Endowment

As of June 30, 2020, the Board of Directors had designated \$2,827,122 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 net assets without donor restriction.

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, 2020, were as follows:

	Net Assets Without Donor Restrictions
Board-designated endowment net assets, beginning of year	\$ 2,498,488
Additions	107,071
Net investment return	221,563
Board-designated endowment net assets, end of year	<u>\$ 2,827,122</u>

**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**Notes to the Financial Statements**  
**June 30, 2020**

**NOTE 7. Endowments (Continued)**

Donor-Restricted Endowment

Net assets with donor restrictions at June 30, 2020, contain 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.

Composition of and changes in donor-restricted endowment net assets for the year ended June 30, 2020, were as follows:

	Net Assets With Donor Restrictions
Endowment net assets, beginning of year	\$ 33,869
Restatement adjustment (see Note 9)	2,000,000
Endowment net assets, end of year	\$ 2,033,869

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 would consider the fund to be underwater if the fair value of the fund is less than the sum of (1) the original value of initial and subsequent gifts donated to the fund and (2) any accumulations to the fund that are required to be maintained in perpetuity in accordance with applicable donor gift instrument. The Organization has interpreted SPMIFA to permit spending from underwater funds in accordance with prudent measures required under the law. The fund is not currently underwater. The remaining portion of the donor-restricted endowment fund that is not classified as the permanent endowment is classified as net assets with donor restrictions subject to purpose restrictions 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

**DESERT FOOTHILLS LIBRARY ASSOCIATION**  
**Notes to the Financial Statements**  
**June 30, 2020**

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**NOTE 7. Endowments (Continued)**

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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.

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**NOTE 8. Contingencies**

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The Association recently had a parking garage built that currently has building defects. The Association has ongoing attorney and expert witness costs seeking collection from the architect and contractor to remedy the defects. It is currently unknown the extent of additional attorney costs that will be incurred and the amount that will be recovered to remedy the defects.

The COVID-19 outbreak in the United States has resulted in the temporary closure of the Desert Foothills Library. The Association expects this matter to negatively impact its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

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**NOTE 9. Restatement Adjustment**

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In fiscal year 2019, the Association reported promises to give and contribution revenue of \$2,000,000. The donation was intended to be an endowment and was incorrectly classified in net assets without donor restrictions. A restatement adjustment of \$2,000,000 has been recorded to increase net assets with donor restrictions and decrease net assets without donor.