

Cupertino Library Foundation, Inc.
Audited Financial Statements
For the Year Ended December 31, 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Cupertino Library Foundation:

We have audited the accompanying statement of financial position of Cupertino Library Foundation (a nonprofit Organization) as of December 31, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2010 financial statements and, in our report dated April 6, 2011, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cupertino Library Foundation as of December 31, 2011, and the changes in its net assets and its cash flow for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Pleasanton, California
April 24, 2012

Cupertino Library Foundation
Statement of Financial Position
December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2011	Summarized 2010
ASSETS					
Cash	\$17,157			\$17,157	\$123,706
Endowment assets	48,326	\$25,935	\$1,403,272	1,477,533	1,623,321
TOTAL ASSETS	\$65,483	\$25,935	\$1,403,272	\$1,494,690	\$1,747,027
NET ASSETS					
Net Assets	\$65,483	\$25,935	\$1,403,272	\$1,494,690	\$1,747,027
TOTAL LIABILITIES & NET ASSETS	\$65,483	\$25,935	\$1,403,272	\$1,494,690	\$1,747,027

The accompanying notes are an integral part of this financial statement.

Cupertino Library Foundation
Statement of Activities
For the Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2011</u>	<u>Summarized 2010</u>
REVENUE					
Donations	\$6,469			\$6,469	\$9,884
Other income	562			562	
Interest income		25		25	23
Investment income		(134,250)		(134,250)	192,764
Subtotal revenue	<u>7,031</u>	<u>(134,225)</u>		<u>(127,194)</u>	<u>202,671</u>
Net asset changes in restrictions					
Endowment earnings appropriated	<u>11,563</u>	<u>(11,563)</u>			
Total Revenue	<u>18,594</u>	<u>(145,788)</u>		<u>(127,194)</u>	<u>202,671</u>
EXPENSES					
Library activities	108,763			108,763	14,435
Management & general	16,054			16,054	6,463
Fund raising	326			326	643
Total expenses	<u>125,143</u>			<u>125,143</u>	<u>21,541</u>
Increase (decrease) in Net Assets	<u>(106,549)</u>	<u>(145,788)</u>		<u>(252,337)</u>	<u>181,130</u>
Net Assets beginning of the year	<u>172,032</u>	<u>171,723</u>	<u>\$1,403,272</u>	<u>1,747,027</u>	<u>1,565,897</u>
Net Assets end of the year	<u>\$65,483</u>	<u>\$25,935</u>	<u>\$1,403,272</u>	<u>\$1,494,690</u>	<u>\$1,747,027</u>

The accompanying notes are an integral part of this financial statement.

Cupertino Library Foundation
Statement of Functional Expenses
For the Year Ended December 31, 2011

Expense	Program Services	Support Services		Total	Summarized
	Library Activities	Management & General	Fund Raising	2011	2010
Community events	\$13,476			\$13,476	\$13,143
Donations	1,367	\$2,500		\$3,867	
Dues, fees & other charges	25	246	\$257	\$528	265
Insurance	800	600		\$1,400	1,400
Library support	88,424			\$88,424	356
Meetings	108	604		\$713	816
Postage		5		\$5	274
Printing			69	\$69	662
Professional fees	4,563	4,500		\$9,063	4,625
Website development		7,600		\$7,600	
TOTAL	<u>\$108,763</u>	<u>\$16,054</u>	<u>\$326</u>	<u>\$125,143</u>	<u>\$21,541</u>

The accompanying notes are an integral part of this financial statement.

Cupertino Library Foundation
Statement of Cash Flows
For the Year Ended December 31, 2011

	Total 2011	Summarized 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase / (decrease) in net assets	(\$252,337)	\$181,130
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Unrealized (gains) / losses on investments	172,351	(161,248)
NET CASH PROVIDED / (USED) BY OPERATING ACTIVITIES	(79,986)	19,882
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments, reinvested	(10,929)	(2,991)
Investment Redemptions	11,563	100,000
Dividends & interest reinvested, less management fees	(27,197)	(28,526)
NET CASH PROVIDED / (USED) BY INVESTING ACTIVITIES	(26,563)	68,483
NET INCREASE / (DECREASE) IN CASH & CASH EQUIVALENTS:	(106,549)	88,365
BEGINNING CASH AND CASH EQUIVALENTS	123,706	35,341
ENDING CASH AND CASH EQUIVALENTS	\$17,157	\$123,706

The accompanying notes are an integral part of this financial statement.

Cupertino Library Foundation
Notes to the Financial Statements
For the Year Ended December 31, 2011

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Cupertino Library Foundation (Foundation) incorporated in California in 1994. The Foundation's primary objective is to assist the Cupertino branch of the Santa Clara County Library System in providing the highest quality of operations. The Foundation seeks contributions for the direct support of the library, or indirectly for the Foundation to ensure the library maintains a level of operation not currently funded by public agencies.

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting. The significant accounting policies that follow are described to enhance the usefulness of the financial statements to the reader.

Financial Statement Presentation

The Foundation prepares its Financial Statements in accordance with generally accepted accounting principles, which require the Foundation to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. In addition, the Foundation is required to present a statement of cash flows.

Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Foundation. Temporary restricted net assets include those subject to donor restrictions that are not met at the end of the current reporting period. The Foundation reports all restricted revenue as an increase in restricted net assets and reclassifies the revenue to unrestricted, as donor restrictions are met. Permanently restricted net assets include those subject to non-expiring donor restrictions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2010, from which the summarized information was obtained.

Cash

For purposes of the statement of cash flows, the Foundation considers all cash accounts held in bank commercial accounts, and not held in investment accounts, regardless of maturity, to be cash.

Cupertino Library Foundation
Notes to the Financial Statements
For the Year Ended December 31, 2011

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Fair Value of Financial Instruments

The Foundation adopted the provisions of ASC 820, which applies to all financial instruments that are measured and reported on a fair value basis. Under ASC 820 fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

In determining fair value, ASC 820 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Foundation. Unobservable inputs reflect the Foundation's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Foundation's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The availability of valuation techniques and observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on inputs that are less observable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market exist. Accordingly, the degree of judgment exercised by the Foundation in determining fair value is greatest for assets and liabilities categorized in Level 3. The financial assets and liabilities measured at fair value on a recurring basis are as follows:

	Carrying <u>Amount</u>	Identical Assets <u>Level 1</u>
Endowment Assets	\$1,477,533	\$1,477,533

Cupertino Library Foundation
Notes to the Financial Statements
For the Year Ended December 31, 2011

Revenue Recognition

The Foundation recognizes support and revenue on the accrual basis of accounting. Revenue from grants which have been classified as "exchange transactions" and program fees are recognized as revenue in the period in which the service is provided. Contributions - Contributions are reported in accordance with ASC 958, and are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise.

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions. Temporarily restricted contributions are reported as increases in restricted net assets. When the donor restriction is met, the contribution is reclassified to unrestricted net assets.

Contributions In-Kind

Contributions in-kind are also recognized in accordance with the provisions of ASC 958. Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services, which require a specialized skill and which the Foundation would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. The Foundation also receives donated services that do not require specific expertise but which are nonetheless central to the Foundation's operations.

Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Indirect expense allocations are based on analysis of program utilization.

Income Taxes

The Foundation is not classified as a private foundation and is exempt from federal and state income taxes under section 501(c)10 of the Internal Revenue Code and Section 23701(q) of the California Code. The Foundation is considered a publicly supported organization. The Financial Accounting Standards Boards (FASB) interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, subsequently included in the FASB codification as ASC 740 prescribes a recognition threshold and a measurement attribute for financial statement recognition of tax positions taken or expected to be taken on a tax return. Management has evaluated its uncertain tax positions and related income tax contingencies and does not believe any material tax positions exist.

Subsequent Events

Management of the Foundation has evaluated events and transactions subsequent to December 31, 2011 for potential recognition or disclosure in the financial statements. The Foundation did not have subsequent events that required recognition or disclosure in the financial statements for the year ended December 31, 2011. Subsequent events have been evaluated through the date the financial statements became available to be issued, April 24, 2012. The Foundation has not evaluated subsequent events after April 24, 2012.

Cupertino Library Foundation
Notes to the Financial Statements
For the Year Ended December 31, 2011

NOTE B – ENDOWMENT – BENEFICIAL INTEREST IN PERPETUAL TRUST

In August 2008, the Financial Accounting Standards Board issued FASB Staff Position 117-1, “Endowments of Not for Profit organizations; Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, (UPMIFA) and Enhanced Disclosures for All Endowment funds.” This standard provides guidance on the net asset classification of donor restricted endowment funds and enhanced disclosures required for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The State of California enacted UPMIFA effective June 23, 2008, the provisions of which apply to endowment funds existing on or established after that date. UPMIFA also requires additional disclosures about an organization’s endowment funds, both donor-restricted and board-designated whether or not the organization is subject to UPMIFA.

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent any explicit donor stipulations to the contrary.

As a result of this interpretation, the Foundation 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 portion of the 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 Foundation in a manner consistent with SPMIFA.

In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation or deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation’s investment policies.

Return Objective and Risk Parameters

The Foundation has adopted an investment policy with the primary investment objective to maximize total return, while assuming an appropriate level of risk given the nature of the funds under management. The goal is to produce a growing level of income and principal to ensure that the funding for the activities supported by the endowment can be maintained in the face of inflation.

Strategies Employed for Achieving Objectives

Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities. Investment risk is measured in terms of the total endowment fund, investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Cupertino Library Foundation
Notes to the Financial Statements
For the Year Ended December 31, 2011

NOTE B – ENDOWMENT – BENEFICIAL INTEREST IN PERPETUAL TRUST (continued)

Endowment net asset composition at December 31, 2011:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment Assets, Investments	(\$92,660)		\$1,403,272	\$1,310,612
Endowment Assets, Cash	\$141,486	\$25,435		\$166,921
Total Endowment Assets	<u>\$48,826</u>	<u>\$25,435</u>	<u>\$1,403,272</u>	<u>\$1,477,533</u>

Changes in endowment net assets for the year ending December 31, 2011:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Beginning of Year	\$48,826	\$171,223	\$1,403,272	\$1,623,321
Investment Earnings		(\$134,225)		(\$134,225)
Appropriated for Expenditure		(\$11,563)		(\$11,563)
End of Year	<u>\$48,826</u>	<u>\$25,435</u>	<u>\$1,403,272</u>	<u>\$1,477,533</u>

Occasionally, the fair value of the assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain in perpetual duration. These deficiencies result from unfavorable market fluctuations during the year. In accordance with the generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. No such deficiencies were noted during the year ending December 31, 2011.

Spending Policy and How Objectives Relate to Spending Policy

All donor restricted endowment funds are held in a combination of cash balances, equities and fixed income funds. The Foundation has a policy of appropriating for distribution each year a flexible amount that will ensure grant making will continue without deterioration of endowment principal. The board reviews its spending policy each year in comparison to the relative growth of endowment investments. For the year ending December 31, 2011 the board approved endowment investment spending up to \$100,000.

NOTE C – TEMPORARILY RESTRICTED NET ASSETS - DONATIONS

For the year ended December 31, 2011, the Foundation's temporarily restricted net asset activity consisted of the following:

	<u>Beginning</u>	<u>Additions</u>	<u>Releases</u>	<u>Ending</u>
e-Readers Project	\$500	\$0	\$0	\$500
Accumulated Endowment Earnings	\$171,223	(\$134,225)	(\$11,563)	\$25,435
Total Temporarily Restricted	<u>\$171,723</u>	<u>(\$134,225)</u>	<u>(\$11,563)</u>	<u>\$25,935</u>