

The Cupertino Library Foundation
Audited Financial Statements
For the Year Ended December 31, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of The Cupertino Library Foundation:

Report on the Financial Statements

We have audited the accompanying financial statements of The Cupertino Library Foundation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the consolidated 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 of 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 organization'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 organization'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 The Cupertino Library Foundation as of December 31, 2014, 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.

Report on Summarized Comparative Information

We have previously audited the financial statements of The Cupertino Library Foundation for the year ended December 31, 2013 and expressed an unmodified audit opinion on those financial statements in our report dated March 14, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been obtained.



Pleasanton, California
April 7, 2015

The Cupertino Library Foundation
Statement of Financial Position
At December 31, 2014 with Comparative Totals at December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2014	Summarized 2013
ASSETS					
Cash	\$27,825	\$11,020		\$38,845	\$21,376
Investments	55,811	261,411	\$1,403,272	1,720,494	1,751,799
TOTAL ASSETS	\$83,636	\$272,431	\$1,403,272	\$1,759,339	\$1,773,175
LIABILITIES					
Accounts Payable	\$2,884			\$2,884	
NET ASSETS					
Net Assets	\$80,752	\$272,431	\$1,403,272	\$1,756,455	1,773,175
TOTAL LIABILITIES & NET ASSETS	\$83,636	\$272,431	\$1,403,272	\$1,759,339	\$1,773,175

See independent auditor's report and notes to the financial statements.

The Cupertino Library Foundation
Statement of Activities
For the Year Ended December 31, 2014 with Comparative Totals for the Year Ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2014</u>	<u>Summarized 2013</u>
SUPPORT AND REVENUE					
Donations and grants	\$19,468	\$25,520		\$44,988	\$10,842
Other income	147			147	372
Investment income		18,695		18,695	242,079
Subtotal support and revenue	<u>19,615</u>	<u>44,215</u>		<u>63,830</u>	<u>253,293</u>
Net asset changes in restrictions					
Grant restrictions released	15,000	(15,000)			
Endowment earnings released	56,985	(56,985)			
Total support and revenue	<u>91,600</u>	<u>(27,770)</u>		<u>63,830</u>	<u>253,293</u>
EXPENSES					
Library activities	56,435			56,435	67,905
Management & general	16,156			16,156	9,140
Fund raising	7,959			7,959	6,331
Total expenses	<u>80,550</u>			<u>80,550</u>	<u>83,376</u>
Increase (decrease) in Net Assets	<u>11,050</u>	<u>(27,770)</u>		<u>(16,720)</u>	<u>169,917</u>
Net Assets beginning of the year	<u>69,702</u>	<u>300,201</u>	<u>\$1,403,272</u>	<u>1,773,175</u>	<u>1,603,258</u>
Net Assets end of the year	<u><u>\$80,752</u></u>	<u><u>\$272,431</u></u>	<u><u>\$1,403,272</u></u>	<u><u>\$1,756,455</u></u>	<u><u>\$1,773,175</u></u>

See independent auditor's report and notes to the financial statements.

The Cupertino Library Foundation
Statement of Functional Expenses
For the Year Ended December 31, 2014 with Comparative Totals for the Year Ended December 31, 2013

Expense	Program Services	Support Services		Total	Summarized
	Library Activities	Management & General	Fund Raising	2014	2013
Community events	\$15,142			\$15,142	\$7,606
Dues, fees & other charges		\$6,298		6,298	173
Insurance		2,460		2,460	2,460
Library support	29,965			29,965	22,472
Marketing / outreach			\$5,274	5,274	4,908
Meetings / conferences		472		472	1,185
Newsletter			780	780	
Postage			58	58	55
Printing			431	431	712
Professional services		4,750		4,750	29,750
Supplies		760		760	283
Website development	11,328	1,416	1,416	14,160	13,772
TOTAL	\$56,435	\$16,156	\$7,959	\$80,550	\$83,376

See independent auditor's report and notes to the financial statements.

The Cupertino Library Foundation
Statement of Cash Flows
For the Year Ended December 31, 2014 with Comparative Totals for the Year Ended December 31, 2013

	Total 2014	Summarized 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase / (decrease) in net assets	(\$16,720)	\$169,917
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Unrealized and realized changes in investment values	(18,695)	(242,079)
Increase (decrease) in operating liabilities		
Accounts payable	2,884	(1,053)
NET CASH PROVIDED / (USED) BY OPERATING ACTIVITIES	(32,531)	(73,215)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment redemptions	50,000	80,000
NET CASH PROVIDED / (USED) BY INVESTING ACTIVITIES	50,000	80,000
NET INCREASE / (DECREASE) IN CASH & CASH EQUIVALENTS	17,469	6,785
BEGINNING CASH AND CASH EQUIVALENTS	21,376	14,591
ENDING CASH AND CASH EQUIVALENTS	\$38,845	\$21,376

See independent auditor's report and notes to the financial statements.

The Cupertino Library Foundation
Notes to the Financial Statements
December 31, 2014

NOTE A – NATURE OF ACTIVITIES

The Cupertino Library Foundation (Foundation) is a California nonprofit public benefit corporation formed in 1994. The Foundation's primary objective is to encourage learning and self-improvement through the Cupertino Library of the Santa Clara County Library District. The Foundation seeks donations and planned gifts from corporations, the business community, from other foundations, and from individuals.

NOTE B – SIGNIFICANT ACCOUNTING POLICIES

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 temporarily restricted net assets and reclassifies the revenue to unrestricted net assets, 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, liabilities, revenue, expenses and related disclosures. 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, 2013, 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 to be cash, regardless of maturity.

Cupertino Library Foundation
Notes to the Financial Statements
December 31, 2014

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

The Foundation carries investments in marketable securities with readily determinable fair values in the Statement of Financial Position. Unrealized gains and losses, interest and dividends, realized changes and related fees are included in the change in net assets in the Statement of Activities.

Fair Value Measurements

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, the Foundation uses a fair value hierarchy which is categorized into three levels as follows:

Level 1 – Valuations are based on unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these balances does not entail a significant degree of judgment. Level 2 – Valuations are based on quoted prices for similar assets or liabilities in active markets from those willing to trade that are not active or for which other inputs can be corroborated by market data. Level 3 – Valuations are based on inputs that are unobservable and significant to the overall fair value measurement and represent 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 Foundation's financial assets measured at fair value are as follows:

	<u>Book Value</u>	<u>Level 1</u>
Investments at December 31, 2014	\$1,720,494	\$1,720,494
Investments at December 31, 2013	\$1,751,799	\$1,751,799

Revenue Recognition

The Foundation recognizes revenue on the accrual basis of accounting. Grants and donations are recognized in accordance with contribution rules established for nonprofit organizations. The Foundation's primary revenue sources are grants and donations from local foundations and individuals.

Allowance for Doubtful Accounts

Management does not maintain an allowance for doubtful accounts on grants or on donations receivable as amounts from these funding sources are likely to be received.

Contributions In-Kind

Donated equipment and other goods are recorded at estimated fair market value on the day of donation. Contributed services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at their estimated fair market value at the time the services are rendered. The Foundation receives other donated services that do not meet the criteria for recognition, but which are, nonetheless, central to the Foundation's operations. These contributed services are not reflected in the financial statements.

The Cupertino Library Foundation
Notes to the Financial Statements
December 31, 2014

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (continued)

Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited 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)3 of the Internal Revenue Code and Section 23701(g) of the California Code. The Foundation is considered a publicly supported organization. The Financial Accounting Standards Board 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.

NOTE C – ENDOWMENT – BENEFICIAL INTEREST IN PERPETUAL TRUST

During the year ending December 31, 2006 the Foundation was the beneficiary of a testamentary endowment and received a permanent restricted gift of \$1,398,425 for which the investment earnings may be used, at the discretion of management, to further the Foundations exempt purpose. Over time the Foundation has received subsequent donations totaling \$4,847, the accumulated total permanently restricted balance at December 31, 2014 is \$1,403,272.

The Foundation follows the accounting rules of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and provides Enhanced Disclosures for its endowment fund. The State of California enacted UPMIFA effective June 2008; State Prudent Management of Institutional Funds Act (SPMIFA).

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted SPMIFA as requiring the preservation of the fair value of the original gift 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 gift 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) the 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 policy.

The Cupertino Library Foundation
Notes to the Financial Statements
December 31, 2014

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

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 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 diversified asset mix, including equities and debt securities. Investment risk is measured in terms of the total endowment assets and allocations between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Endowment investment positions are as follows:

	<u>12/31/2014</u>	<u>12/31/2013</u>
Cash	\$330,521	\$338,473
Russell Index Equities	\$502,505	\$169,810
Mutual Funds	\$212,284	\$591,080
Closed End Funds	<u>\$675,184</u>	<u>\$652,436</u>
Total Endowment Assets	<u><u>\$1,720,494</u></u>	<u><u>\$1,751,799</u></u>

Changes in endowment investments are as follows:

	<u>12/31/2014</u>	<u>12/31/2013</u>
Balance at beginning of year	\$1,751,799	\$1,589,720
Balance at end of year	<u>\$1,720,494</u>	<u>\$1,751,799</u>
Change in value	<u><u>(\$31,305)</u></u>	<u><u>\$162,079</u></u>

Change in value of endowment investments is due to the following:

	<u>12/31/2014</u>	<u>12/31/2013</u>
Investment earnings	\$18,695	\$242,079
Expenditure appropriation	<u>(\$50,000)</u>	<u>(\$80,000)</u>
Change in value	<u><u>(\$31,305)</u></u>	<u><u>\$162,079</u></u>

Endowment investment earnings detail is as follows:

	<u>12/31/2014</u>	<u>12/31/2013</u>
Unrealized changes	\$20,471	\$337,646
Realized changes	(\$13,527)	(\$105,074)
Investment fees	(\$12,890)	(\$12,860)
Interest / dividends	<u>\$24,641</u>	<u>\$22,367</u>
Total	<u><u>\$18,695</u></u>	<u><u>\$242,079</u></u>

The Cupertino Library Foundation
Notes to the Financial Statements
December 31, 2014

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

Spending Policy and How Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year a flexible amount that ensures grant making will continue without deterioration of endowment principal. The board reviews its spending policy annually in comparison to the relative growth of its endowment investments. For the year ending December 31, 2014 the board approved spending up to 3% of the fair market value of the invested endowment fund, as averaged over the three previous calendar years. The board approved appropriations of \$50,000 of its endowment, which fell below its spending policy. For the year ending December 31, 2013 the board approved spending up to \$100,000 and appropriated \$80,000 of its endowment.

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, 2014 or for the year ending December 31, 2013.

NOTE D – TEMPORARILY RESTRICTED NET ASSETS - DONATIONS

For the year ended December 31, 2014, 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			\$500
Programs		\$5,000	(\$5,000)	
Books		\$20		\$20
S^4 Program		\$20,500	(\$10,000)	\$10,500
Accumulated Endowment Earnings	<u>\$299,701</u>	<u>\$18,695</u>	<u>(\$56,985)</u>	<u>\$261,411</u>
Total Temporarily Restricted	<u>\$300,201</u>	<u>\$44,215</u>	<u>(\$71,985)</u>	<u>\$272,431</u>

NOTE E – FINANCIAL INSTRUMENTS

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of temporary cash balances. The Foundation maintains a majority of their cash and investments at a commercial broker who maintains SIPC insurance up to \$500,000. The Foundation's investment balance held at this broker exceeds the SIPC limit. The Foundation has not experienced any losses in such accounts. Management believes the Foundation is not exposed to any significant credit risk related to its investments.

The Cupertino Library Foundation
Notes to the Financial Statements
December 31, 2014

NOTE F – RELATED PARTY TRANSACTIONS

For the year ending December 31, 2014 an at large board member's daughter was employed to provide internet / website services and was compensated \$18,416; which was evaluated by the Foundation's management to be market value for such services. Also during the year ending December 31, 2014 the Organization rented Blue Light Cinema's, which is owned by an at large board member. Total paid to Blue Light Cinemas is \$0.

NOTE G – SUBSEQUENT EVENTS

Management has reviewed the results of operations for the period of time from its year end, December 31, 2014, through April 7, 2015, the date the financial statements were available to be issued, and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.