

***THE CARLSBAD  
LIBRARY AND ARTS  
FOUNDATION***

**Audited Financial Statements**

**December 31, 2008**

Presented By

***Douglas R. Ashbrook, CPA  
San Diego, CA***

**THE CARLSBAD LIBRARY AND ARTS FOUNDATION**  
**AUDITED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
The Carlsbad Library and Arts Foundation

I have audited the accompanying statement of financial position of The Carlsbad Library and Arts Foundation (a nonprofit organization) as of December 31, 2008, and the related statements of activities and cash flows, and functional expenses for the year then ended. These financial statements are the responsibility of the organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Carlsbad Library and Arts Foundation as of December 31, 2008, and the changes in its net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

March 5, 2009

Douglas R. Ashbrook, CPA

**THE CARLSBAD LIBRARY AND ARTS FOUNDATION**  
**Statement of Financial Position**  
**December 31, 2008**

ASSETS

ASSETS:

Cash and cash equivalents	\$ 130,805
Investments	78,102
Endowments	1,297,564
Computer equipment	1,616
Piano	85,661
Less: accumulated depreciation	<u>(70,070)</u>
 Total Assets	 <u>\$ 1,523,678</u>

LIABILITIES AND NET ASSETS

NET ASSETS:

Unrestricted	(240,331)
Temporarily restricted	10,652
Permanently restricted	<u>1,753,357</u>
 Total Net Assets	 <u>1,523,678</u>
 Total Liabilities and Net Assets	 <u>\$ 1,523,678</u>

See accompanying notes

**THE CARLSBAD LIBRARY AND ARTS FOUNDATION**  
**Statement of Activities**  
**For the Year Ended December 31, 2008**

<u>REVENUE &amp; OTHER SUPPORT:</u>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Contributions	\$ 1,797	\$ 1,050	\$ 4,025	\$ 6,872
Investment income	6,411	50,499	-	56,910
Special events, net of direct expenses	15,667	-	-	15,667
Net assets released from restriction:				
Restrictions satisfied by payment	<u>256,988</u>	<u>(256,988)</u>	<u>-</u>	<u>0</u>
 Total Revenue and Other Support	 280,863	 (205,439)	 4,025	 79,449
 <u>EXPENSES:</u>				
 Program Services	 111,202	 -	 -	 111,202
Supporting Services:				
Management & general	16,528	-	-	16,528
Fund raising	<u>14,578</u>	<u>-</u>	<u>-</u>	<u>14,578</u>
 Total Supporting Services	 <u>31,106</u>	 <u>-</u>	 <u>-</u>	 <u>31,106</u>
 Total Expenses	 <u>142,308</u>	 <u>-</u>	 <u>-</u>	 <u>142,308</u>
 Change in Net Assets before Net Realized and Unrealized Gains/(Losses)	 138,555	 (205,439)	 4,025	 (62,859)
 Net Realized and Unrealized Gains/(Losses)	 <u>(647,947)</u>	 <u>-</u>	 <u>-</u>	 <u>(647,947)</u>
 Change in Net Assets	 (509,392)	 (205,439)	 4,025	 (710,806)
 Net Assets, Beginning of Year	 218,943	 266,209	 1,749,332	 2,234,484
Prior period adjustment	<u>50,118</u>	<u>(50,118)</u>	<u>-</u>	<u>0</u>
 Net Assets, End of Year	 <u>\$ (240,331)</u>	 <u>\$ 10,652</u>	 <u>\$ 1,753,357</u>	 <u>\$ 1,523,678</u>

See accompanying notes

**THE CARLSBAD LIBRARY AND ARTS FOUNDATION**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2008**

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in Net Assets	\$ (710,806)
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Adjustments to Reconcile Change in Net Assets to  
Net Cash Provided/(Used) Operating Activities:

Depreciation	8,889
Unrealized loss on investments	<u>585,246</u>

Net Cash Provided/(Used) by Operating Activities	(116,671)
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CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of investments	(432,917)
Proceeds from investments	<u>565,770</u>

Net Cash Provided/(Used) by Investing Activities	132,853
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Net Increase/(Decrease) in Cash and Cash Equivalents	16,182
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Cash and Cash Equivalents at:

Beginning of Year	<u>114,623</u>
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End of Year	\$ <u><u>130,805</u></u>
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See accompanying notes

**THE CARLSBAD LIBRARY AND ARTS FOUNDATION**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2008**

	<u>SUPPORTING SERVICES</u>			
	<u>Program</u>	<u>Management</u>	<u>Fund</u>	<u>Combined</u>
	<u>Services</u>	<u>&amp; General</u>	<u>Raising</u>	<u>Total</u>
<b><u>FUNCTIONAL EXPENSES:</u></b>				
Salaries and wages	\$ 3,308	\$ 1,527	\$ 1,273	\$ 6,108
Payroll taxes	-	718	-	718
Bank charges and advisory fees	-	10,446	-	10,446
Contract labor	1,076	359	3,455	4,890
Dues & subscriptions	295	105	-	400
Insurance	1,324	253	-	1,577
Marketing and promotion	1,440	-	600	2,040
Postage	225	62	-	287
Office supplies	-	2,508	-	2,508
News letter	3,304	-	-	3,304
Miscellaneous	-	50	-	50
Depreciation	8,889	-	-	8,889
Learning center activities	11,680	-	9,250	20,930
Schulman auditorium activities	73,576	-	-	73,576
Seminars and education	4,385	-	-	4,385
Legal and professional fees	1,700	500	-	2,200
Total Expenses	\$ <u>111,202</u>	\$ <u>16,528</u>	\$ <u>14,578</u>	\$ <u>142,308</u>

See accompanying notes

**The Carlsbad Library and Arts Foundation**  
**Notes to Financial Statements**  
**December 31, 2008**

**Note 1 - Organization and Significant Accounting Policies:**

The Carlsbad Library and Arts Foundation (Foundation) was organized in 1999 pursuant to the nonprofit public benefit corporation laws of the State of California. The specific purpose of the Foundation is to engage in the solicitation, receipt and administration of property and moneys for the benefit of the Carlsbad Library in order to provide and enhance the free access to information, educational, cultural and recreational materials, events and lifelong learning opportunities for its patrons.

Basis of Accounting

The Foundation's accounting records and the accompanying financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles (GAAP) whereby all revenue is recognized when earned rather than received and expenses are recognized when incurred.

Income Taxes

The Foundation is a private not-for-profit corporation organized under the laws of the State of California. As a Section 501(c)(3) organization, it is generally exempt from income taxes under the Internal Revenue Code and Section 23701(d) of the State Revenue and Taxation Code.

Financial Statement Presentation

The Foundation reports information regarding its financial position and activities under Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation 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.

Contributions

The Foundation reports contributions received according to SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Accordingly, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions are considered available for unrestricted use unless specifically restricted by the donor. Contributions are recognized when the donor makes a promise to give to the Foundation, in substance and unconditionally.

Property and Equipment

Property and equipment acquisitions are recorded at cost when purchased. Donated assets are recorded and capitalized at fair market value at the date of contribution. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Depreciation expense for the year ending December 31, 2008 is \$8,889.

Cash & Cash Equivalents

For the purpose of the Statements of Cash Flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

**The Carlsbad Library and Arts Foundation**  
**Notes to Financial Statements**  
**December 31, 2008**

**Note 1 - Organization and Significant Accounting Policies (cont.):**

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts and disclosures. Actual results could differ from these estimates.

Expense Allocations

The costs of providing 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 benefitted.

Donated Services

Donated services are recognized as contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. Volunteers provide various fund-raising services throughout the year that are not recognized as contributions in the financial statements since they do not meet the criteria under SFAS No. 116.

**Note 2- Net Assets:**

Temporarily restricted net assets as of December 31, 2008 are \$10,652 and consist of contributions donated for the purpose of the Learning Center activities and programs.

Permanently restricted net assets as of December 31, 2008 are \$1,753,357 consisting of \$252,525 in contributions made to the Foundation's Art Gallery endowment account and \$1,500,832 contributed for the Robert H. Gartner Cultural endowment account.

The principal balances of both endowments are permanently restricted, however, earnings from the Foundation's art gallery endowment are temporarily restricted for the purpose of supporting the art gallery activities and programs and earnings from the Robert H. Gartner cultural endowment are temporarily restricted for the purpose of supporting cultural programs held in the Ruby G. Schulman auditorium.

**Note 3- Prior Period Adjustment:**

Temporarily restricted net assets in the amount of \$50,118 were reclassified as unrestricted net assets since the donations made for seat plaques were not restricted by the donor, but were designated by the Board to use toward the auditorium programs and activities. The correction has no effect on the results of the current year's activities. The cumulative effect neither increases nor decreases net assets.

**The Carlsbad Library and Arts Foundation**  
**Notes to Financial Statements**  
**December 31, 2008**

**Note 4- Investments & Endowments**

The Foundation's investments and endowment investments are reported on the basis of quoted market prices and consist primarily of stock and bond funds as of December 31, 2008 as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Stock funds	\$ 1,325,670	\$ 879,498	\$ (446,172)
Bond funds	<u>593,428</u>	<u>496,168</u>	<u>(97,260)</u>
Total	<u>\$ 1,919,098</u>	<u>\$ 1,375,666</u>	<u>\$ (543,432)</u>

Investment earnings for the year ended December 31, 2008 are as follows:

Investment income	\$ 56,910
Net realized and unrealized gains/(losses)	(647,947)
Less: brokerage fees	<u>( 10,446)</u>
Total Investment earnings/(losses)	<u>\$ (601,483)</u>

**Note 5- Endowment Funds**

The Foundation has two separate endowment funds maintained in separate accounts independent of other investments and/or board designated funds. As mentioned in note 2, the Foundation's art gallery endowment was established to provide support for the art gallery activities and programs and the Robert H. Gartner cultural endowment was established to support the cultural programs held in the Ruby G. Schulman auditorium. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees 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 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 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 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 fund.
- (2) The purposes of the Foundation and the donor-restricted endowment fund.
- (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 Carlsbad Library and Arts Foundation**  
**Notes to Financial Statements**  
**December 31, 2008**

**Note 5- Endowment Funds (cont.)**

**Endowment Net Asset Composition by Type of Fund  
as of December 31, 2008.**

<u>Donor-restricted endowment funds</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Art gallery endowment	\$ (54,251)	\$ -	\$ 252,525	\$ 198,274
Robert H. Gartner cultural endowment	<u>(401,542)</u>	<u>-</u>	<u>1,500,832</u>	<u>1,099,290</u>
Total funds	<u>\$ (455,793)</u>	<u>\$ -</u>	<u>\$ 1,753,357</u>	<u>\$ 1,297,564</u>

**Change in Endowment Net Assets  
for the Year Ended December 31, 2008**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 185,561	\$ 1,749,332	\$ 1,934,893
Investment return:				
Investment income	-	50,498	-	50,498
Brokerage fees	-	(9,722)	-	(9,722)
Net depreciation (realized and unrealized)	<u>(455,793)</u>	<u>(152,761)</u>	<u>-</u>	<u>(608,554)</u>
Total investment return	<u>(455,793)</u>	<u>(111,985)</u>	<u>-</u>	<u>(567,778)</u>
Contributions	-	-	4,025	4,025
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(73,576)</u>	<u>-</u>	<u>(73,576)</u>
Endowment net assets, end of year	<u>\$ (455,793)</u>	<u>\$ -</u>	<u>\$ 1,753,357</u>	<u>\$ 1,297,564</u>

**Description of Amounts Classified as Permanently Restricted Net Assets and  
Temporarily Restricted Net Assets (Endowment Only)**

Permanently Restricted Net Assets

The portion of perpetual endowment funds required to be retained permanently either by explicit donor stipulation or by SPMIFA \$ 1,753,357

Temporarily Restricted Net Assets

The portion of perpetual endowment funds subject to a time Restriction under SPMIFA \$ -

**The Carlsbad Library and Arts Foundation**  
**Notes to Financial Statements**  
**December 31, 2008**

**Note 5- Endowment Funds (cont.)**

**Endowment Investment Policies**

Funds with Deficiencies

Due to current economic conditions, the fair value of assets associated with individual donor-restricted endowment funds have fallen below the level the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$455,793 as of December 31, 2008. These deficiencies resulted from unfavorable market fluctuations. Appropriations in the amount of \$73,576 to the City of Carlsbad for programs in accordance with donor-restrictions were made prior to these deficiencies and consisted of 4.5% of the total value of the endowment at the time the distribution was made.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing of the endowment assets. Within prudent investment principles, in selecting FDIC insured institutions for cash, CDs, and similar liquid investments, the Board may take into consideration factors other than the rate of return. Such factors may include, but are not limited to, the institution's community involvement, support of the Foundation and its programs, and similar factors the Board deems prudent under the circumstances, so long as the general rate of return received is similar to that of other institutions.

At such time as investments are made in the US equities market, and consistent with prudent investment standards and safety, the Foundation shall seek to achieve above the market average rate of return as defined by the S&P 500 index while assuming a moderate level of investment risk. Actual returns in any given year may vary due to economic and other market conditions.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation's finance committee shall supervise the management of the assets maintained and shall, as appropriate, obtain investment advice from independent sources, including other Foundations, Registered Investment Advisors, Securities Dealers, and other Financial Institutions.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year 4.5% of its R.H. Gartner Cultural Endowment Fund to be paid to the City of Carlsbad to support the activities and programs of the Ruby G. Schulman Auditorium. Appropriations from the Art Gallery Endowment shall be made in accordance with the Foundations procedures for requesting disbursements. This process includes preparing a formal request of funds including a description of the proposed use of the funds, the proposed budget, the amount requested, and a statement as to how the intended request meets the objectives of the endowment fund as well as other detail information regarding the request for distribution.

**The Carlsbad Library and Arts Foundation**  
**Notes to Financial Statements**  
**December 31, 2008**

**Note 5- Endowment Funds (cont.)**

Spending Policy and How the Investment Objectives Relate to Spending Policy (cont.)

The Board will then consider the request and may either approve it as submitted, modify the request or reject it. At least annually written reports shall be submitted to the Board detailing how the previous years approved requests were used.

Disbursement requests may be made to the Board at any time by either the Library Director and/or the Arts Manager so long as the cumulative amount of requests for each calendar year does not exceed the annual amount available for distribution from the endowment funds.

In establishing this policy, The Foundation considered the long-term expected return on its endowment consistent with maintaining the purchasing power of the endowment assets held in perpetuity as well as provide additional real growth through new gifts and investment return.