

Auxiliary Organizations Association

Chico, California

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITORS' REPORT

June 30, 2017 and 2016



K · C O E
I S O M

Auxiliary Organizations Association

TABLE OF CONTENTS

June 30, 2017 and 2016

	<u>Page Number</u>
Organizational Data	1
Independent Auditors' Report	2
 FINANCIAL SECTION	
Statements of Financial Position	5
Statements of Activities and Changes in Net Assets	6
Statements of Cash Flows	7
Notes to the Financial Statements	8
 SUPPLEMENTARY INFORMATION SECTION	
Schedules of Functional Expenses – 2017	14
Schedules of Functional Expenses – 2016	15

Auxiliary Organizations Association

ORGANIZATIONAL DATA

NATURE AND PURPOSE

The Auxiliary Organizations Association (the Association), was organized in 1970 to facilitate communication and information sharing among auxiliary organizations operating within the California State University system. The Association is a nonprofit corporation organized under Section 501(c)(3) of the *Internal Revenue Code*.

2017 OFFICERS

Keith Kompsi	President
Christina Brown	Past President
Jim Reinhart	President-Elect
Richard Jackson	Secretary/Treasurer

2017 ELECTED REPRESENTATIVES

Tari Hunter	Monica Kauppinen
Georg Jahn	Chuck Kissel
Kim Clark	Andrew Singletary
Nicole Lane	Christia Williams

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Auxiliary Organizations Association
Chico, California

We have audited the accompanying financial statements of Auxiliary Organizations Association, a nonprofit organization (the Association), which comprise the statements of financial position as of June 30, 2017 and 2016; the related statements of activities and changes in net assets, and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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 Association'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 Association'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.

INDEPENDENT AUDITORS' REPORT

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

KCoe Jam, LLP

November 17, 2017
Chico, California

FINANCIAL SECTION

Auxiliary Organizations Association

STATEMENTS OF FINANCIAL POSITION

June 30	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 64,078	\$ 156,789
Investments	295,041	270,417
Accounts receivable - net of allowance of doubtful accounts	38,150	23,850
Prepaid expenses	19,348	18,750
Total Current Assets	416,617	469,806
Website Development In Progress	19,097	-
TOTAL ASSETS	\$ 435,714	\$ 469,806
LIABILITIES AND NET ASSETS		
Current Liabilities		
Deferred income	\$ 100,100	\$ 99,600
Net Assets		
Unrestricted:		
Undesignated	65,546	103,983
Board designated	270,068	266,223
Total Net Assets	335,614	370,206
TOTAL LIABILITIES AND NET ASSETS	\$ 435,714	\$ 469,806

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

Auxiliary Organizations Association
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended June 30	2017	2016
UNRESTRICTED NET ASSETS		
Revenues and Other Support		
Membership dues	\$ 194,225	\$ 187,625
Conference sponsorship	237,500	204,000
Annual conference fees	229,790	184,715
Special events and committees	4,700	-
Interest and dividend income	11,066	10,078
Realized and unrealized gains (losses)	13,970	(1,077)
In-kind contributions	16,100	16,800
Total Revenues and Other Support	707,351	602,141
EXPENSES		
Program services:		
Executive committee meetings	46,491	44,276
Annual conference meeting	425,090	382,161
Committee meetings	40,077	24,951
Legislative liaison	13,000	8,536
Legal services	26,017	24,893
COGR dues	5,250	4,750
Website expense	20,400	19,544
Plaques and awards	5,760	4,310
Marketing and communications	14,100	14,335
Special projects	26,529	32,922
Bank fees	16,855	10,839
Donated goods and services	16,100	16,800
CSUnity	1,700	2,000
Management and general	84,574	67,342
TOTAL EXPENSES	741,943	657,659
Decrease in Unrestricted Net Assets	(34,592)	(55,518)
Unrestricted Net Assets - Beginning of Year	370,206	425,724
Unrestricted Net Assets - End of Year	\$ 335,614	\$ 370,206

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

Auxiliary Organizations Association

STATEMENTS OF CASH FLOWS

Years Ended June 30	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (34,592)	\$ (55,518)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized losses or (gains)	(13,970)	1,077
Changes in:		
Accounts receivable	(14,300)	(19,200)
Prepaid expenses	(598)	(2,628)
Deferred income	500	7,205
NET CASH USED IN OPERATING ACTIVITIES	(62,960)	(69,064)
CASH FLOWS FROM INVESTING ACTIVITIES		
Website development	(19,097)	-
Purchase of investments	(10,654)	(9,862)
NET CASH USED IN INVESTING ACTIVITIES	(29,751)	(9,862)
Net Change in Cash and Cash Equivalents	(92,711)	(78,926)
Cash and Cash Equivalents - Beginning of Year	156,789	235,715
Cash and Cash Equivalents - End of Year	\$ 64,078	\$ 156,789

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

Auxiliary Organizations Association

NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations Auxiliary Organizations Association (the Association) is a nonprofit corporation organized and operated to facilitate communication and sharing of information regarding auxiliary organizations operating within the California State University system. Membership is open to any auxiliary organization operating within the California State University as an entity as described in the *California Education Code*, Section 89901.

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.

Use of Estimates The preparation of the financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

Basis of Presentation Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Association and changes therein are classified and reported as follows:

Unrestricted Net Assets: Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets: Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Association and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets: Net assets subject to donor-imposed stipulations that they be maintained permanently by the Association. Generally, the donors of these assets permit the Association to use all or part of the income earned on any related investments for general or specific purposes.

Cash and Cash Equivalents The Association considers highly liquid investments, such as bank deposits, money market accounts, and certificates of deposit with maturities of 90 days or less as cash equivalents. At times, the Association's cash and cash equivalents may exceed the Federal Deposit Insurance Corporation (FDIC) insurance limits.

Accounts Receivable The Association's accounts receivable consist of amounts due from business partners attending the annual conference as well as members' annual dues. The Association records allowances for doubtful accounts based on payment history and correspondence with those who have balances outstanding. The allowance for doubtful accounts was \$3,000 as of June 30, 2017 and 2016.

Website Development In Progress The Association's new membership website is expected to be completed in fiscal year 2018. Once placed in service, it will be amortized over three years using the straight line method.

Auxiliary Organizations Association

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Fair Value Measurements The Association accounts for certain assets and liabilities in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, which establishes a framework for measuring fair value under generally accepted accounting principles.

Realized gains and losses on dispositions are based on the net proceeds and the adjusted book value of the securities sold using the specific identification method. Unrealized gains and losses on investment securities available for sale are based on the difference between book value and fair value of each security.

The Association classifies its fair value assets and liabilities into a hierarchy of three levels based on the markets in which they are traded and the reliability of the assumptions used to determine fair value. The asset or liability measurement level within the hierarchy is based on the lowest level of any assumption that is significant to the measurement.

Valuations within the hierarchy levels are based upon the following:

- Level 1:* Quoted market prices for identical instruments traded in active exchange markets.
- Level 2:* Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.
- Level 3:* Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Foundation's estimates of assumptions that market participants would use on pricing the asset or liability. Valuation techniques include management's judgment and estimation which may be significant.

Following is a description of the valuation methodology used for assets measured at fair value. There has been no change in the methodology used during the year ended June 30, 2017.

Registered Investment Companies (Mutual Funds): Each investor in the mutual fund will typically receive units of participation in the mutual fund. These units are valued daily, based on the underlying securities owned by the mutual fund. The Association's mutual fund investments have underlying securities which include domestic and international equity securities as well as bonds.

Auxiliary Organizations Association

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Donated Services Donated services are recognized as contributions in accordance with FASB ASC Subtopic 958-605, *Not-for-Profit-Entities – Revenue Recognition*, 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 Association. The value of donated goods and services meeting the requirements for recognition in the financial statements was \$16,100 and \$16,800 at June 30, 2017 and 2016, respectively.

Income Taxes The Association is exempt from income taxes under Section 501(c)(3) of the *Internal Revenue Code* and Section 23701(d) of the *California Revenue and Taxation Code*. However, income from certain activities not directly related to the tax-exempt purpose is subject to taxation as unrelated business income. Unrelated business income was insignificant and, accordingly, no provision for income taxes was recorded. The Association has been classified as an organization that is not a private foundation under Section 509(a)(2).

The Association files exempt organization returns in the U.S. federal and California jurisdictions. The federal returns for tax years 2013 and beyond, and the California returns for tax years 2012 and beyond, remain subject to examination by the taxing authorities.

Evaluation of Subsequent Events Management has evaluated subsequent events through November 17, 2017, the date on which the financial statements were available to be issued.

Auxiliary Organizations Association

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

2. INVESTMENTS

The following is a schedule of the assets at fair value, by level within the fair value hierarchy:

June 30, 2017	Level 1	Level 2	Level 3	Total
Mutual Funds				
Value funds	\$ 128,543	\$ -	\$ -	128,543
Blend funds	119,677	-	-	119,677
Bond funds	46,821	-	-	46,821
Total Investments	\$ 295,041	\$ -	\$ -	295,041

June 30, 2016	Level 1	Level 2	Level 3	Total
Mutual Funds				
Value funds	\$ 114,463	\$ -	\$ -	114,463
Blend funds	109,155	-	-	109,155
Bond funds	46,799	-	-	46,799
Total Investments	\$ 270,417	\$ -	\$ -	270,417

Gross realized gains of \$2,411 and \$4,785 were recorded as of June 30, 2017 and 2016, respectively. The realized gains were due to reinvested dividends and interest, and there were no sales proceeds during June 30, 2017 and 2016. Gross unrealized losses of \$11,559 and \$(5,862) were recorded as of June 30, 2017 and 2016, respectively.

3. NET ASSETS

Unrestricted board-designated net assets result from the Executive Committee policy, which requires reserve funds. The board-designated balance includes reserves for working capital, conferences, and general contingencies. The minimum reserve requirement for working capital is 50% of the most recently approved annual general operating expense budget, or \$50,000. The minimum reserve requirement for conferences is 50% of the prior-year conference business partner income, or \$75,000. The reserve requirement for general contingencies is to be maintained at a level, determined annually, necessary to mitigate any other contingencies not contemplated elsewhere with a minimum balance of \$50,000.

Board-designated net asset reserves are as follows:

June 30, 2017	
Working capital	\$ 101,318
Conferences	118,750
General contingencies	50,000
Total Board Designated Net Assets	\$ 270,068

Auxiliary Organizations Association

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. DEFERRED INCOME

The Association's dues are billed on a calendar-year basis. Dues collected during the period of July 1 to December 31 are recorded as deferred income and reclassified as income during the following fiscal year. Deferred income totaled \$100,100 and \$99,600 at June 30, 2017 and 2016, respectively.

5. COMMITMENTS AND CONTINGENCIES

The Association entered into an agreement with a website development company for the creation of an improved membership website. The total contract is for \$45,000 and is expected to be completed during the 2018 fiscal year. The remaining purchase commitment for the website is \$25,903.

6. NEW ACCOUNTING PRONOUNCEMENT

In August 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Not-for-Profit Entities*. This amendment will improve the current net asset classification requirements and the information presented in financial statements and notes regarding not-for-profit entities' liquidity, financial performance, and cash flows. The Development Lab's management has not yet determined the impact that implementation of this amendment, which is required by July 1, 2018, will have on the financial statements, if any.

SUPPLEMENTARY INFORMATION SECTION

Auxiliary Organizations Association
SCHEDULE OF FUNCTIONAL EXPENSES – 2017

Year Ended June 30, 2017	Program Services	Management and General	Total
Annual conference:			
Hotel and meals	\$ 304,857	\$ -	\$ 304,857
Speaker fees and other expenses	102,084	-	102,084
Preplanning	18,149	-	18,149
Executive committee:			
Meetings and travel	46,491	-	46,491
Committee meetings	40,077	-	40,077
Special projects	26,529	-	26,529
Legislative liaison	13,000	-	13,000
Legal services:			
Personnel counsel	20,737	-	20,737
General counsel	5,280	-	5,280
Audit fees	-	13,200	13,200
Accounting services	-	39,338	39,338
Insurance	-	2,540	2,540
COGR dues	5,250	-	5,250
Website maintenance expense	20,400	10,096	30,496
Miscellaneous	-	19,400	19,400
Plaques and awards	5,760	-	5,760
Marketing and communications	14,100	-	14,100
Bank fees	16,855	-	16,855
Donated goods and services	16,100	-	16,100
CSUnity	1,700	-	1,700
Total Expenses	\$ 657,369	\$ 84,574	\$ 741,943

Auxiliary Organizations Association
SCHEDULE OF FUNCTIONAL EXPENSES – 2016

Year Ended June 30, 2016	Program Services	Management and General	Total
Annual conference:			
Hotel and meals	\$ 260,557	\$ -	\$ 260,557
Speaker fees and other expenses	100,899	-	100,899
Preplanning	20,705	-	20,705
Executive committee:			
Meetings and travel	44,276	-	44,276
Committee meetings	24,951	-	24,951
Special projects	32,922	-	32,922
Legislative liaison	8,536	-	8,536
Legal services:			
Personnel counsel	20,630	-	20,630
General counsel	4,263	-	4,263
Audit fees	-	12,200	12,200
Accounting services	-	38,192	38,192
Insurance	-	2,524	2,524
COGR dues	4,750	-	4,750
Website maintenance expense	19,544	4,800	24,344
Miscellaneous	-	9,626	9,626
Plaques and awards	4,310	-	4,310
Marketing and communications	14,335	-	14,335
Bank fees	10,839	-	10,839
Donated goods and services	16,800	-	16,800
CSUnity	2,000	-	2,000
Total Expenses	\$ 590,317	\$ 67,342	\$ 657,659