



Financial Statements  
July 31, 2017 and December 31, 2016  
**The Frank Lloyd Wright Foundation**

The Frank Lloyd Wright Foundation

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July 31, 2017 and December 31, 2016

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## Independent Auditor's Report

The Board of Trustees  
The Frank Lloyd Wright Foundation  
Scottsdale, Arizona

### Report on the Financial Statements

We have audited the accompanying financial statements of The Frank Lloyd Wright Foundation (the Foundation) which comprise the statements of financial position as of July 31, 2017 and December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the seven month period ended July 31, 2017 and the year ended December 31, 2016, 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 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 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 The Frank Lloyd Wright Foundation as of July 31, 2017 and December 31, 2016, and the changes in its net assets and its cash flows for the seven month period ended July 31, 2017 and the year ended December 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

  
Phoenix, Arizona  
January 12, 2018

The Frank Lloyd Wright Foundation  
Statements of Financial Position  
July 31, 2017 and December 31, 2016

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,192,577	\$ 1,634,300
Accounts receivable, net	252,237	480,073
Other receivables	3,883	-
Promises to give, net	216,110	366,298
Bookstore inventories	228,970	248,695
Prepaid expenses	58,861	207,571
Total current assets	1,952,638	2,936,937
Investments	2,808,486	2,411,386
Promises to Give, Net	520,944	698,581
Property, Plant and Equipment, Net	9,776,739	9,865,866
Archives, Art Objects and Drawing Library Collection	2,779,053	2,775,898
Total assets	\$ 17,837,860	\$ 18,688,668
Liabilities and Net Assets		
Current Liabilities		
Current maturities of capital lease obligation	\$ 16,810	\$ 20,894
Accounts payable	140,793	349,798
Accrued expenses	341,998	251,398
Line of credit	140,510	-
Deferred revenue		
Architectural school tuition	37,007	230,025
Other deferred revenue	161,022	123,310
Total current liabilities	838,140	975,425
Capital Leases Payable, Less Current Maturities	76,911	9,006
Long-Term Benefit Payable	25,000	27,500
Total liabilities	940,051	1,011,931
Net Assets		
Unrestricted - general	12,945,065	13,642,088
Unrestricted - board designated	2,074,244	2,074,244
Total unrestricted net assets	15,019,309	15,716,332
Temporarily restricted	1,467,273	1,624,432
Permanently restricted	411,227	335,973
Total net assets	16,897,809	17,676,737
Total liabilities and net assets	\$ 17,837,860	\$ 18,688,668

The Frank Lloyd Wright Foundation  
Statements of Activities

Seven Month Period Ended July 31, 2017 and Year Ended December 31, 2016

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenues and Other Support</b>				
Public tours and access	\$ 2,177,607	\$ -	\$ -	\$ 2,177,607
Licensing program	543,947	-	-	543,947
Retail program	1,198,091	-	-	1,198,091
Contributions, grants and membership	568,691	179,673	50,000	798,364
In-kind contributions	580,300	-	-	580,300
School of architecture	424,402	-	-	424,402
Collections and exhibition programs	7,458	-	-	7,458
Investment income	123,292	6,302	25,254	154,848
Rental income	31,249	-	-	31,249
Annual access fee	29,167	-	-	29,167
Other income	65,982	-	-	65,982
Net assets released from restrictions	343,134	(343,134)	-	-
Total revenues and other support	<u>6,093,320</u>	<u>(157,159)</u>	<u>75,254</u>	<u>6,011,415</u>
<b>Expenses and Other Losses</b>				
Preservation and stewardship	1,332,710	-	-	1,332,710
Public tours and access	1,174,776	-	-	1,174,776
School of architecture/Taliesin fellowship	1,865,784	-	-	1,865,784
Retail program	1,065,889	-	-	1,065,889
Licensing program	401,404	-	-	401,404
Outreach, partnerships and publications	63,320	-	-	63,320
K-12 education program	93,927	-	-	93,927
Total program	<u>5,997,810</u>	<u>-</u>	<u>-</u>	<u>5,997,810</u>
Fundraising and membership	653,097	-	-	653,097
Management and general, including interest expense of \$2,115	139,436	-	-	139,436
Total expenses and other losses	<u>6,790,343</u>	<u>-</u>	<u>-</u>	<u>6,790,343</u>
Change in Net Assets	(697,023)	(157,159)	75,254	(778,928)
Net Assets, Beginning of Year	<u>15,716,332</u>	<u>1,624,432</u>	<u>335,973</u>	<u>17,676,737</u>
Net Assets, End of Year	<u>\$ 15,019,309</u>	<u>\$ 1,467,273</u>	<u>\$ 411,227</u>	<u>\$ 16,897,809</u>

The Frank Lloyd Wright Foundation  
Statements of Activities

Seven Month Period Ended July 31, 2017 and Year Ended December 31, 2016

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenues and Other Support</b>				
Public tours and access	\$ 3,185,008	\$ -	\$ -	\$ 3,185,008
Licensing program	723,171	-	-	723,171
Retail program	1,552,654	-	-	1,552,654
Contributions, grants and membership	1,341,262	257,222	200,000	1,798,484
School of architecture	444,782	-	-	444,782
Collections and exhibition programs	7,983	-	-	7,983
Investment income	80,109	6,930	5,303	92,342
Rental income	53,028	-	-	53,028
Annual access fee	50,000	-	-	50,000
Other income	48,903	-	-	48,903
Net assets released from restrictions	1,138,644	(1,138,644)	-	-
Total revenues and other support	<u>8,625,544</u>	<u>(874,492)</u>	<u>205,303</u>	<u>7,956,355</u>
<b>Expenses and Other Losses</b>				
Preservation and stewardship	2,217,027	-	-	2,217,027
Public tours and access	1,211,263	-	-	1,211,263
School of architecture/Taliesin fellowship	2,698,349	-	-	2,698,349
Retail program	1,332,741	-	-	1,332,741
Licensing program	491,959	-	-	491,959
Outreach, partnerships and publications	264,873	-	-	264,873
Total program	<u>8,216,212</u>	<u>-</u>	<u>-</u>	<u>8,216,212</u>
Fundraising and membership	537,052	-	-	537,052
Management and general, including interest expense of \$1,787	273,292	-	-	273,292
Total expenses and other losses	<u>9,026,556</u>	<u>-</u>	<u>-</u>	<u>9,026,556</u>
Change in Net Assets	(401,012)	(874,492)	205,303	(1,070,201)
Net Assets, Beginning of Year	<u>16,117,344</u>	<u>2,498,924</u>	<u>130,670</u>	<u>18,746,938</u>
Net Assets, End of Year	<u>\$ 15,716,332</u>	<u>\$ 1,624,432</u>	<u>\$ 335,973</u>	<u>\$ 17,676,737</u>

The Frank Lloyd Wright Foundation

Statements of Functional Expenses

Seven Month Period Ended July 31, 2017 and Year Ended December 31, 2016

	2017										
	Preservation and Stewardship	Public Tours and Access	School of Architecture/ Taliesin Fellowship	Retail Program	Licensing Program	Outreach, Partnerships and Publications	K-12 Education Program	Total Program	Fundraising and Membership	Management and General	Total Expenses
Program and special activities	\$ 14,616	\$ 67,012	\$ 76,654	\$ 28,480	\$ 21,363	\$ 3,153	\$ 1,308	\$ 212,586	\$ 25,918	\$ 6,500	\$ 245,004
Salaries and related taxes	672,315	398,079	764,235	185,621	224,945	-	55,772	2,300,967	297,846	65,710	2,664,523
Fringe benefits	86,819	25,729	74,103	16,365	22,072	-	4,630	229,718	24,442	7,255	261,415
Depreciation	88,799	34,266	180,846	17,591	5,085	-	11,118	337,705	6,579	10,438	354,722
Printing	352	67	1,738	8	487	-	1,025	3,677	9,990	14	13,681
Professional and other fees	24,421	28,803	129,669	12,453	30,957	-	2,417	228,720	78,956	10,999	318,675
Interest/bank fees	3,104	5,405	7,584	27,640	1,218	-	145	45,096	2,489	1,342	48,927
Postage	588	989	1,135	20,183	572	27,144	237	50,848	105	147	51,100
Office supplies	41,578	6,371	152,841	7,489	678	-	4,329	213,286	5,543	1,258	220,087
Advertising and public relations	2,022	361,831	11,385	156,600	71,475	-	5,074	608,387	57,042	771	666,200
Travel	11,351	5,412	53,581	3,898	6,006	-	818	81,066	14,057	2,062	97,185
Telephone	4,369	3,841	5,197	2,463	2,368	-	361	18,599	3,043	526	22,168
Repairs and maintenance	284,637	1,475	4,061	613	345	-	94	291,225	530	870	292,625
Data processing	11,446	9,026	15,767	4,043	2,038	-	778	43,098	2,956	3,592	49,646
Insurance	19,782	10,967	17,432	3,755	2,569	-	698	55,203	3,943	6,469	65,615
Utilities	18,989	12,629	41,910	6,570	1,602	-	3,278	84,978	2,099	289	87,366
Dues	13,570	9,305	38,773	5,932	1,856	-	439	69,875	10,137	3,900	83,912
Rent expense	1,287	591	4,019	352	138	-	38	6,425	212	348	6,985
Miscellaneous/COGS/Other	32,665	192,978	284,854	565,833	5,630	33,023	1,368	1,116,351	107,210	16,946	1,240,507
<b>Total</b>	<b>\$ 1,332,710</b>	<b>\$ 1,174,776</b>	<b>\$ 1,865,784</b>	<b>\$ 1,065,889</b>	<b>\$ 401,404</b>	<b>\$ 63,320</b>	<b>\$ 93,927</b>	<b>\$ 5,997,810</b>	<b>\$ 653,097</b>	<b>\$ 139,436</b>	<b>\$ 6,790,343</b>

The Frank Lloyd Wright Foundation  
Statements of Functional Expenses  
Seven Month Period Ended July 31, 2017 and Year Ended December 31, 2016

2016

	Preservation and Stewardship	Public Tours and Access	School of Architecture/ Taliesin Fellowship	Retail Program	Licensing Program	Outreach, Partnerships and Publications	Total Program	Fundraising and Membership	Management and General	Total Expenses
Program and special activities	\$ 20,756	\$ 37,696	\$ 76,182	\$ 8,305	\$ 5,473	\$ 7,814	\$ 156,226	\$ 21,066	\$ 11,929	\$ 189,221
Salaries and related taxes	1,039,179	615,056	982,437	328,059	355,402	18,501	3,338,634	248,557	152,709	3,739,900
Fringe benefits	148,478	27,019	101,866	30,634	34,652	1,256	343,905	21,381	7,797	373,083
Depreciation	151,515	68,435	298,596	25,504	1,847	7,608	553,505	13,063	18,130	584,698
Printing	2,045	15,362	5,740	956	3,499	324	27,926	6,445	1,290	35,661
Professional and other fees	87,211	166,826	87,830	25,149	29,140	16,892	413,048	68,614	13,692	495,354
Interest/bank fees	3,686	3,143	464	37,551	1,389	325	46,558	5,386	2,246	54,190
Postage	3,015	3,671	1,215	36,895	2,300	187	47,283	16,677	611	64,571
Office supplies	76,701	8,054	205,912	10,746	3,227	656	305,296	4,942	2,950	313,188
Advertising and public relations	8,139	155,386	27,374	7,453	16,816	181	215,349	48,241	3,438	267,028
Travel	18,291	6,070	61,500	8,899	11,367	2,431	108,558	2,391	3,662	114,611
Telephone	11,581	6,625	5,238	3,902	3,461	189	30,996	2,559	1,968	35,523
Repairs and maintenance	505,095	2,502	9,121	1,751	610	174	519,253	427	1,804	521,484
Data processing	16,943	18,475	4,281	17,906	4,303	825	62,733	2,567	8,482	73,782
Insurance	48,744	32,747	319	16,027	7,947	2,220	108,004	3,962	23,071	135,037
Utilities	45,240	18,264	76,626	6,923	1,930	1,999	150,982	4,690	579	156,251
Dues	19,012	12,068	45,724	5,452	2,639	7,323	92,218	12,384	7,567	112,169
Rent expense	1,825	908	5,561	2,246	221	63	10,824	155	655	11,634
Miscellaneous/COGS/Other	9,571	12,956	702,363	758,383	5,736	195,905	1,684,914	53,545	10,712	1,749,171
<b>Total</b>	<b>\$ 2,217,027</b>	<b>\$ 1,211,263</b>	<b>\$ 2,698,349</b>	<b>\$ 1,332,741</b>	<b>\$ 491,959</b>	<b>\$ 264,873</b>	<b>\$ 8,216,212</b>	<b>\$ 537,052</b>	<b>\$ 273,292</b>	<b>\$ 9,026,556</b>



The Frank Lloyd Wright Foundation  
Statements of Cash Flows  
Seven Month Period Ended July 31, 2017 and Year Ended December 31, 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (778,928)	\$ (1,070,201)
Adjustments to reconcile change in net assets to cash from (used for) operating activities		
Depreciation	354,722	584,698
Change in allowance for promises to give	(51,312)	-
Discount on long-term receivable	(2,113)	(5,097)
Bad debt expense	251,707	324,471
Unrealized/realized (gain)/loss on investments	(112,999)	(61,737)
Loss on disposal of assets	117,374	21,682
In-kind contributions of assets	(86,862)	(139,191)
Changes in assets and liabilities		
Accounts receivable	(23,871)	208,521
Other receivables	(3,883)	-
Promises to give, net	381,250	256,020
Bookstore inventories	19,725	80,567
Prepaid expenses	148,710	(34,099)
Accounts payable	(209,005)	101,779
Accrued expenses	90,600	(95,376)
Deferred revenue	(155,306)	55,211
Net Cash from (used for) Operating Activities	<u>(60,191)</u>	<u>227,248</u>
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(221,292)	(406,081)
Proceeds from sale of property, plant and equipment	-	3,277
Proceeds on other receivable	-	1,000,000
Additions to archive, art objects, and drawing library	(3,155)	(32,624)
Purchase of investments	(1,005,438)	(2,344,838)
Proceeds from sale of investments	721,337	1,894,732
Net Cash from (used for) Investing Activities	<u>(508,548)</u>	<u>114,466</u>
Cash Flows from Financing Activities		
Payments on capital lease obligations	(10,994)	(19,917)
Payments on long-term benefit	(2,500)	-
Payments on line of credit	-	(400,000)
Borrowings on line of credit	140,510	400,000
Net Cash from (used for) Financing Activities	<u>127,016</u>	<u>(19,917)</u>
Net Change in Cash and Cash Equivalents	(441,723)	321,797
Cash and Cash Equivalents, Beginning of Year	1,634,300	1,312,503
Cash and Cash Equivalents, End of Year	<u>\$ 1,192,577</u>	<u>\$ 1,634,300</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	<u>\$ 2,115</u>	<u>\$ 1,818</u>

## **Note 1 - Nature of Organization and Significant Accounting Policies**

### **Description of Organization**

The Frank Lloyd Wright Foundation (the Foundation) was formed under the laws of the State of Arizona as a nonprofit corporation.

The Frank Lloyd Wright Foundation owns both Taliesin West in Arizona and Taliesin in Wisconsin (which are designated as national historic landmarks), operates the Frank Lloyd Wright School of Architecture, owns and stewards the intellectual property and approved use of everything Wright designed or created (including licensed products and reproductions), jointly steers the Frank Lloyd Wright Foundation Archives (The Museum of Modern Art | Avery Architectural & Fine Arts Library, Columbia University, New York), and engages in a variety of meaningful outreach programs and partnerships.

In 1987, The Frank Lloyd Wright School of Architecture was accredited by the North Central Association of Colleges and Schools for its Master of Architecture Program and in August 1992 for its Bachelor of Architectural Studies. The Professional Master of Architecture was granted accreditation by the National Architectural Accrediting Board (NAAB) in 1996. Presently, the Foundation only offers a Master of Architecture Program degree.

### **Cash and Cash Equivalents and Concentration of Risk**

The Foundation classifies all highly liquid short-term investments with an original maturity of 90 days or less as cash equivalents. Periodically during the year, the Foundation maintains cash in financial institutions in excess of federally insured limits. The Foundation has not experienced any losses in such accounts.

### **Accounts Receivable**

The Foundation grants unsecured credit to its students, licensees and others, without interest. Management considers student accounts receivable over 90 days to be past due and all other accounts over 60 days to be past due. Management provides an allowance for doubtful accounts based upon prior experience and management's assessment of the collectability of existing specified accounts through a charge to earnings and a credit to a valuation allowance. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The Foundation generally does not charge interest on overdue customer account balances. At July 31, 2017 and December 31, 2016, the allowance was \$0 and \$27,300, respectively.

### **Promises to Give**

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. Management determines the allowance for the uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At July 31, 2017 and December 31, 2016, the allowance for promises to give was \$97,460 and \$148,772, respectively.

**Bookstore Inventories**

Inventories are stated at the lower of cost or market determined by the first-in first-out method.

**Investments**

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment gain/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses.

**Property, Plant and Equipment**

Property, plant and equipment items that are purchased are recorded at cost. Donations of property and equipment are recorded as in-kind revenues at the asset's fair market value on the date of donation. The Foundation follows the practice of capitalizing all expenditures for equipment in excess of \$1,000. Property, plant and equipment are depreciated over the estimated useful lives of the related assets principally on an accelerated method using the following lives:

	<u>Years</u>
Buildings and improvements	5 - 39
Furniture, fixtures and equipment	5 - 10
Transportation equipment	5
Land improvements	5 - 19

When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Maintenance and repairs are charged to expense and renewals and betterments are capitalized.

Equipment leased under capital leases are stated at the lesser of the present value of the minimum lease payments during the lease term or the fair market value at the date they were placed into service. Amortization is provided using the straight-line method over the lesser of the term of the lease or the estimated useful lives of the assets and is included with depreciation expense on owned assets.

The Foundation reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the seven month period ended July 31, 2017 and year ended December 31, 2016.

**Collections, Art Objects and Drawing Library Collections**

The Foundation capitalizes contributions to its archive, art object and drawing library collections. The original archive is recognized at a nominal value of \$1. Subsequent additions to the collections are recognized at the cost of the acquired items. Ongoing preservation and restoration costs are capitalized as incurred. Standard guidelines for works of art on paper are used to protect and preserve the collection.

## Net Assets

Unrestricted net assets include those funds presently available for use by the Foundation at the discretion of management. The board of trustees of the Foundation has placed a designation on certain funds in the amount of \$2,074,244 at July 31, 2017 and December 31, 2016, which is designated for the preservation of buildings and other assets owned by the Foundation and the funding of certain projects within the Foundation.

Temporarily restricted net assets are comprised of contributions subject to donor restrictions which will be satisfied either by the passage of time or by actions of the Foundation.

Permanently restricted net assets consist of funds that are subject to the donor's specifications that the principal balance be invested and only the interest and dividend income or a portion of the income is available for restricted purposes as specified by the donor or, if not specified, for unrestricted purposes of the discretion of management.

Gifts of cash and other assets are recognized as restricted support if they are pledged or received with donor stipulations that limit the use of the donation. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor restricted contributions, whose restrictions are met in the same reporting period, are reported as unrestricted support.

## Advertising

Advertising costs are charged to operations as incurred. Advertising expense for the seven month period ended July 31, 2017 and the year ended December 31, 2016 was \$96,737 and \$185,978, respectively.

## Income Taxes

The Frank Lloyd Wright Foundation is organized as an Arizona nonprofit organization and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3) and has been determined not to be a private foundation under Section 509(a)(1). The Foundation files annually a Return of Organizations Exempt from Income Tax (Form 990) with the IRS. In addition, the Foundation is generally subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. Management has determined the Foundation has no taxable unrelated business income and it has not filed the Exempt Organization Business Income Tax Return (IRS Form 990-T).

The Foundation believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

## Estimates

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

### **Revenue Recognition and Deferred Revenue**

The Foundation recognizes revenue from the bookstore, visitation, and collections and exhibition programs when services are provided or when the goods and merchandise are sold. Licensing program (royalty) revenue is recognized as a percentage of product sales made by licensees of the Foundation. In addition, cash payments received for future orders of sculptures are recorded as deposits.

The Foundation recognizes architectural school tuition revenue ratably over the duration of the school year. Under the Foundation's non-traditional approach to architectural studies, students may enter and leave the program at any time. Deferred tuition revenue represents a liability for the billed portion of tuition revenue not earned as of year-end. The future revenues will be earned as students progress through the semester.

### **Fair Value Measurements**

The Foundation reports certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation can access at the measurement date.

Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 — Unobservable inputs for the asset or liability. In these situations, the Foundation develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Foundation's assessment of the quality, risk or liquidity profile of the asset or liability.

### **Sales Taxes**

Various states impose a sales tax on the Organization's sales to non-exempt customers. The Organization collects the sales tax from customers and remits the entire amount to each respective state. The Organization's accounting policy is to exclude the tax collected and remitted to the states from revenues and cost of sales.

**Reclassifications**

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

**Note 2 - Accounts Receivable**

Accounts receivable as of July 31 and December 31 consisted of:

	2017	2016
Royalties	\$ 217,183	\$ 262,878
Students	19,138	207,476
Tours	3,898	-
Other, including reimbursable expenses	12,018	37,019
Less allowance for doubtful accounts	-	(27,300)
	\$ 252,237	\$ 480,073

**Note 3 - Conditional Promises to Give**

The Foundation has been named the beneficiary of a charitable remainder unitrust. Upon the death of both donors listed in the trust, the Foundation would receive \$40,000. The Foundation can be replaced as a beneficiary, therefore, the Foundation has not recognized a promise to give.

**Note 4 - Promises to Give**

Unconditional promises to give are estimated to be collected as follows at July 31 and December 31:

	2017	2016
Within one year	\$ 241,724	\$ 410,474
In one to five years	618,425	830,925
Over five years	65,500	65,500
	925,649	1,306,899
Less discount to net present value 2.63% - 8.00%	(91,135)	(93,248)
Less allowance for uncollectible promises to give	(97,460)	(148,772)
Total	737,054	1,064,879
Current portion	(216,110)	(366,298)
Long-term portion	\$ 520,944	\$ 698,581

A signed gift agreement was received from a Scottsdale residential home builder on December 1, 2014. For each home sold by this builder at the planned Cavalliere Ranch in North Scottsdale, \$500 will be provided in as-sold quarterly installments after closing and will be gifted for all planned phases of the project. Expected receipts are discounted at a rate of 8%. The amount due net of discounts, included above totaled \$142,921 and \$153,293 as of July 31, 2017 and December 31, 2016, respectively.

The School of Architecture conducted a fundraising “campaign for independence” that began in early December 2014 in order to fund the creation of a new independent school entity as mandated by the Higher Learning Commission by-laws.

Requirements for independence as established by the Board were \$2,000,000, of which \$400,000 was to be in cash and \$1,600,000 in promises to give by December 31, 2015. These thresholds were met and change of control documents were filed with the Higher Learning Commission (see Note 17). The change of control was granted on March 8, 2017. All amounts contributed were recognized in 2015 net of discounts on pledges. The discount rate used is 2.63%. Amounts to be received in the future have been recorded as a temporarily restricted net asset due to time restrictions. The amount due, net of discounts and allowances, included above totaled \$594,133 and \$911,586 at July 31, 2017 and December 31, 2016.

### Note 5 - Fair Value Measurements

Fair value of assets measured on a recurring basis are as follows for the seven month period ended July 31, 2017 and the year ended December 31, 2016:

	2017			
	Fair Value	Quoted Prices in Active Markets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<b>Operating Investments</b>				
Corporate Bonds and Notes	\$ 841,150	\$ 841,150	\$ -	\$ -
Marketable Equities - Common Stock	429,004	429,004	-	-
<b>Mutual Funds and Bond Funds</b>				
Total Stock Market Fund	177,489	177,489	-	-
Short Term Investment Grade Fund	131,028	131,028	-	-
Global Dividend Portfolio Fund	119,677	119,677	-	-
Doubleline Total Return	92,187	92,187	-	-
Blackrock Strategic Income	48,364	48,364	-	-
Multisector Bond	46,380	46,380	-	-
Intermediate Term Bond	123,016	123,016	-	-
Total Bond Market Index Fund	45,540	45,540	-	-
<b>Close End Funds and Exchange</b>				
Inflation Protected Bond	19,322	19,322	-	-
	<u>2,073,157</u>	<u>2,073,157</u>	<u>-</u>	<u>-</u>
<b>Endowment and Scholarship Investments</b>				
<b>Mutual Funds and Bond Funds</b>				
Short Term Invest Grade Fund	85,486	85,486	-	-
Value Index Fund	47,732	47,732	-	-
Total Stock Market Fund	46,286	46,286	-	-
Total World Stock Index Fund	34,639	34,639	-	-
Growth Index Fund	49,401	49,401	-	-
Growth Dividend Fund	31,973	31,973	-	-
Doubleline Total Return	55,361	55,361	-	-
Intermediate Term Corporate Bond Fund	50,636	50,636	-	-
Long-Term Bond Index	48,276	48,276	-	-
Small Cap Index Fund	34,462	34,462	-	-
Diversified Emerging Markets Fund	17,437	17,437	-	-
Large Blend Fund	52,706	52,706	-	-
Large Growth Fund	48,394	48,394	-	-
Foreign Large Growth Fund	27,528	27,528	-	-
Mid-Cap Value Fund	10,363	10,363	-	-
Large Value Fund	58,210	58,210	-	-
Small Blend Fund	15,741	15,741	-	-
<b>Close End Funds and Exchange Traded Products</b>				
Large Blend Fund	12,339	12,339	-	-
Mid-Cap Value Fund	8,359	8,359	-	-
	<u>735,329</u>	<u>735,329</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,808,486</u>	<u>\$ 2,808,486</u>	<u>\$ -</u>	<u>\$ -</u>

The Frank Lloyd Wright Foundation

Notes to Financial Statements

July 31, 2017 and December 31, 2016

	2016			
	Fair Value	Quoted Prices in Active Markets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Operating Investments				
Corporate Bonds and Notes	\$ 846,257	\$ 846,257	\$ -	\$ -
Marketable Equities - Common Stock	322,048	322,048	-	-
Mutual Funds and Bond Funds				
Total Stock Market Fund	141,747	141,747	-	-
Short Term Investment Grade Fund	128,554	128,554	-	-
Global Dividend Portfolio Fund	106,508	106,508	-	-
Doubleline Total Return	89,515	89,515	-	-
Blackrock Strategic Income	46,942	46,942	-	-
Bond Market Index Fund	45,271	45,271	-	-
	<u>1,726,842</u>	<u>1,726,842</u>	<u>-</u>	<u>-</u>
Endowment and Scholarship Investments				
Mutual Funds and Bond Funds				
Short Term Investment Grade Fund	224,643	224,643	-	-
Value Index Fund	62,260	62,260	-	-
Total Stock Market Fund	60,803	60,803	-	-
Total World stock Index Fund	49,049	49,049	-	-
Growth Index Fund	48,657	48,657	-	-
Growth Dividend Fund	47,619	47,619	-	-
Doubleline Total Return	46,003	46,003	-	-
Intermediate Term Corporate Bond	45,892	45,892	-	-
Long-Term Bond Index	45,280	45,280	-	-
Small Cap Index Fund	32,253	32,253	-	-
Brokerage assets	22,085	22,085	-	-
	<u>684,544</u>	<u>684,544</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,411,386</u>	<u>\$ 2,411,386</u>	<u>\$ -</u>	<u>\$ -</u>

The fair values of the mutual funds and bond funds are determined using Level 1 inputs, which are derived from readily available pricing sources and third-party pricing services for identical or comparable instruments.

## Note 6 - Net Investment Return

The following schedules summarize the investment return and its classification in the statement of activities for the seven month period ended July 31, 2017 and the year ended December 31, 2016.

Investment return consisted of the following:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 38,498	\$ 1,348	\$ 2,003	\$ 41,849
Realized and unrealized losses	84,794	4,954	23,251	112,999
	<u>\$ 123,292</u>	<u>\$ 6,302</u>	<u>\$ 25,254</u>	<u>\$ 154,848</u>



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Notes to Financial Statements

July 31, 2017 and December 31, 2016

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Interest and dividends	\$ 24,508	\$ 3,454	\$ 2,643	\$ 30,605
Realized and unrealized gains	55,601	3,476	2,660	61,737
	<u>\$ 80,109</u>	<u>\$ 6,930</u>	<u>\$ 5,303</u>	<u>\$ 92,342</u>

**Note 7 - Property and Equipment**

Property and equipment at July 31 and December 31 consisted of:

	2017	2016
Buildings and improvements	\$ 10,408,159	\$ 9,821,575
Furniture, fixtures and equipment	4,387,311	4,443,009
Transportation equipment	131,386	131,386
Land improvements	1,569,968	1,555,523
	<u>16,496,824</u>	<u>15,951,493</u>
Less accumulated depreciation	(8,233,687)	(7,991,117)
	<u>8,263,137</u>	<u>7,960,376</u>
Construction in progress	643,029	1,034,917
Land	870,573	870,573
	<u>\$ 9,776,739</u>	<u>\$ 9,865,866</u>

Construction in progress consisted of the following items at July 31 and December 31:

	2017	2016
Taliesin West		
Foundation website	\$ -	\$ 15,750
Fabric Roof Study	31,638	-
Miscellaneous	16,404	-
Taliesin		
Guest wing renovation	538,749	501,634
Tan y Deri	39,544	436,059
Loggia Alcove	16,694	-
Residence wing restoration	-	81,474
	<u>\$ 643,029</u>	<u>\$ 1,034,917</u>

**Note 8 - Lines of Credit**

At July 31, 2017 the Foundation has an available line of credit in the amount of \$500,000 that has a variable rate of prime plus 1% (5.25%). The line is uncollateralized. The Foundation also has an available revolving line of credit of \$1,000,000 that has a variable line rate (2.52%). The line is collateralized by investments held with the investment firm. As of July 31, 2017, the outstanding balance of the line of credit is \$140,510. No amounts were outstanding at December 31, 2016.

**Note 9 - Capital Lease Payable**

The Foundation has entered into capital lease agreements for copiers. The lease requires monthly payments of \$1,692, including interest at 3.95%. The maturing date of the copier lease is August 2022. Annual maturities of capital leases are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 16,810	\$ 3,384	\$ 20,194
2019	17,601	2,704	20,305
2020	18,309	1,996	20,305
2021	19,046	1,259	20,305
2022	19,812	493	20,305
Thereafter	<u>2,143</u>	<u>6</u>	<u>2,149</u>
	<u>\$ 93,721</u>	<u>\$ 9,842</u>	<u>\$ 103,563</u>

The assets reported on the Foundation's balance sheet and related amortization for these leases are as follows:

Furniture and equipment	\$ 96,131
Less accumulated amortization	<u>(2,756)</u>
	<u>\$ 93,375</u>

**Note 10 - Property Taxes**

The Foundation has received notice from Maricopa County that it is exempt from property taxes for the seven month period ended July 31, 2017 and the year ended December 31, 2016. Taxes are still assessed and paid for several parcels in Wisconsin.

**Note 11 - Related Party Transactions**

The Foundation and Taliesin Preservation, Inc. (TPI) were related through common board membership until March 2012. As of July 31, 2017, the Foundation and TPI have two board members in common. In-kind gift contributions of \$69,300 were predominately for construction projects in progress during calendar year 2016. There were \$80,500 of in-kind contributions made during 2017. The Foundation paid approximately \$50,000 in payroll expenses for employees of TPI during both 2017 and 2016. In partnership with the Foundation, it is the mission of Taliesin Preservation, Inc. to conserve the masterful buildings and landscape of the Taliesin estate and to educate the public on Frank Lloyd Wright the man, the architect, his architecture, and the ideas that continue to inspire other architects around the world.

A member of the board of trustees donated in-kind art conservation and restoration services on two Asian screens that are an integral part of the art collection installed at Taliesin, the house located in Wisconsin. The value of these in-kind services totaled \$21,973 as of December 31, 2016.

**Note 12 - Endowment Funds**

The Foundation's endowment consists of eight donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions, considering the laws of the state for endowment management. In Arizona, those laws are found in Arizona Revised Statutes Sections 10-11801 through 10-11805. One fund has restrictions placed by the donor in that income from the fund can only be used once the fund reaches \$500,000. Upon reaching \$500,000, income can be used to support school preservation initiatives

**Interpretation of Relevant Law**

The Board of Trustees of the Foundation has interpreted the law as requiring the preservation of the fair value of corpus of a donor-restricted endowment fund 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 any 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 (that is, its net unspent appreciation and income) is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the law.

In accordance with state statutes, 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.

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets,				
Beginning of year	\$ -	\$ -	\$ 335,973	\$ 335,973
Investment return	-	1,348	2,003	3,351
Investment income	-	4,954	23,251	28,205
	-	6,302	361,227	367,529
Appropriation of assets for expense	-	(6,302)	-	(6,302)
Additions	-	-	50,000	50,000
Endowment net assets,				
End of year	\$ -	\$ -	\$ 411,227	\$ 411,227

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July 31, 2017 and December 31, 2016

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, Beginning of year	\$ -	\$ -	\$ 130,670	\$ 130,670
Investment return	-	3,454	2,643	6,097
Investment income	-	3,476	2,660	6,136
	-	6,930	135,973	142,903
Appropriation of assets for expense	-	(6,930)	-	(6,930)
Additions	-	-	200,000	200,000
Endowment net assets, End of year	\$ -	\$ -	\$ 335,973	\$ 335,973

Permanently restricted net assets at July 31, 2017 and December 31, 2016 are resources invested in perpetuity, the income of which is available for the following purposes:

	2017	2016
Endowed gift to be held in perpetuity with the income to be used for scholarships	\$ 126,670	\$ 126,670
Endowed gift to be held in perpetuity with the income to be used for school capital improvements once the fund reaches \$500,000	280,557	205,303
Endowed gift to be held in perpetuity with the income unrestricted in use	4,000	4,000
	\$ 411,227	\$ 335,973

### Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature would be reported in unrestricted net assets. There were no deficiencies at July 31, 2017 and December 31, 2016.

### 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 endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the spending rate, aggregate costs of portfolio management, the long-term inflation rate and any growth factor that the Board may, from time to time, determine appropriate while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately five percent net of inflation annually. Actual returns in any given year may vary from this amount. 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 targets an asset allocation that places a greater emphasis on bonds and government investments to achieve its long-term return objectives within prudent risk constraints.

**Spending Policies and How the Investment Objectives Relate to Spending Policy**

The Foundation has a policy of appropriating for distribution each year five percent of its temporarily restricted scholarship funds and a portion of the interest earned on permanently restricted scholarship funds. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment to stay at a level base. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**Note 13 - Board Designated Funds**

At July 31, 2017 and December 31, 2016, board designations on unrestricted net assets were as follows:

	2017	2016
Preservation/Restoration Reserve	\$ 2,074,244	\$ 2,074,244

**Note 14 - Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes or periods as of July 31, 2017 and December 31, 2016.

	2017	2016
Purpose Restrictions, Available for Spending		
School scholarships	\$ 378,816	\$ 352,214
Student activities	34,261	24,888
Preservation and restoration	253,208	118,518
School grant for mining town redevelopment	63,934	63,934
Total purpose-restricted net assets	<u>730,219</u>	<u>559,554</u>
Time Restrictions		
Future operations	142,921	153,293
School campaign	594,133	911,585
Total time restrictions	<u>737,054</u>	<u>1,064,878</u>
	<u>\$ 1,467,273</u>	<u>\$ 1,624,432</u>

Net assets were released from restrictions as follows during the seven month period ended July 31, 2017 and year ended December 31, 2016:

	2017	2016
Satisfaction of purpose restrictions		
Student activities	\$ -	\$ 26,069
Preservation and restoration	-	49,627
Chief development officer recruitment	-	55,045
Expiration of time restrictions	343,134	1,007,903
	<u>\$ 343,134</u>	<u>\$ 1,138,644</u>

**Note 15 - Retirement Plan**

The Foundation has a defined contribution retirement plan for the benefit of its employees. Employees are eligible to participate in the plan if they are 18 years or older and have completed one year of service. The plan provides for discretionary employer contributions. Discretionary matching contributions for the seven month period ended July 31, 2017 and the year ended December 31, 2016 amounted to \$10,311 and \$17,871, respectively.

**Note 16 - Donations In-Kind and Contributed Services**

Items donated as gifts in-kind that are used in the Foundation’s programs are recorded as income and expense at the time the items are received, which is normally also the time they are placed into service. Donations of library books, collections or items which meet the capitalization threshold are recorded as assets.

Contributed building and land improvements are recorded at fair value at the date of donation as unrestricted support and revenue unless the use of the assets is limited by a donor-imposed restriction. Contributed services are reported as contributions at their fair value if such services create or enhance nonfinancial assets or would have been purchased if not provided by donation, require specialized skills and are provided by individuals possessing such specialized skills. The Foundation recorded the following in-kind donations and contributed services for the seven month period ended July 31, 2017 and the year ended December 31, 2016:

	2017	2016
Building and land improvements	\$ 82,062	\$ 69,300
Restoration of Asian screens for Taliesin	-	21,793
Furniture and equipment	9,182	18,450
Professional engineering services	-	15,000
Professional construction services	-	14,648
Marketing and public relations services	580,300	4,000
Other in-kind donations	8,775	3,080
Teaching services	-	3,000
Other professional services	10,222	352
	<u>\$ 690,541</u>	<u>\$ 149,623</u>

Community members in Arizona and Wisconsin volunteered as tour guides, administrative assistants and facilities technicians. A dollar valuation of their effort is not reflected in the financial statements because it does not meet the criteria for recognition. However, volunteer hours for the seven month period ended July 31, 2017 and the year ended December 31, 2016 were approximately as follows:

	2017	2016
Total volunteer hours	<u>5,695</u>	<u>6,035</u>

**Note 17 - Subsequent Events**

Subsequent events have been evaluated through January 12, 2018, the date which the financial statements were available to be issued.

The Higher Learning Commission (HLC) announced its approval on March 8, 2017 of the Change of Control application submitted by the Frank Lloyd Wright School of Architecture (School). This allows the School to operate as an entity independent from the Frank Lloyd Wright Foundation (Foundation), and thus maintain its accreditation as an institution of higher learning. The Foundation will continue to be a supportive partner as the School works to provide experimental and experiential higher education in architecture. It will continue to donate space at Taliesin and Taliesin West for the School's operations to provide other support to the School. The Foundation legally splits the two organizations with separate operations beginning on August 1, 2017. At the same time the Foundation modified its year end to match the academic year of the School, August 1 through July 31st. As of July 31, 2017, net assets of approximately \$2,008,000 relate to the School. All assets related to the school were contributed to the school by the Foundation on August 1, 2017. The Foundation is the sole member of the school; therefore the financial results of the school will continue to be reported, as a consolidated entity, with the Foundation.