

Denver Public Library Friends Foundation

Financial Statements and Supplementary Information

December 31, 2017 and 2016

(With Independent Auditor's Report Thereon)

Kundinger, Corder & Engle, P.C.

Certified Public Accountants

Independent Auditor's Report

Board of Trustees Denver Public Library Friends Foundation

We have audited the accompanying financial statements of Denver Public Library Friends Foundation, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities 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.

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.

**Board of Trustees
Denver Public Library Friends Foundation**

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Denver Public Library Friends Foundation as of December 31, 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 2017 schedule of changes in net assets on page 20 is presented for purposes of additional analysis and is 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.

Keundinger, Cordia & Congle, P.C.

May 10, 2018

Denver Public Library Friends Foundation
Statements of Financial Position
December 31, 2017 and 2016

	2017	2016
Assets:		
Cash and cash equivalents:		
Operating	\$ 461,306	428,624
Special Use Fund (note 1d)	188,124	580,425
Accounts receivable and other assets, net	11,254	12,311
Contributions receivable (note 5)	1,162,062	1,236,000
Assets held for Library (note 2)	-	16,301
Long-term investments (notes 3 and 4)	8,474,697	7,583,462
Equipment, net of accumulated depreciation of \$34,237 and \$28,655	8,833	14,415
Total assets	\$ 10,306,276	9,871,538
 Liabilities and Net Assets:		
Accounts payable and accrued expenses	\$ 37,066	22,386
Assets held for Library (note 2)	-	16,301
Total liabilities	37,066	38,687
 Net assets (notes 6 and 7):		
Unrestricted:		
Board designated endowment fund	963,240	863,897
Undesignated	616,590	535,757
	1,579,830	1,399,654
Temporarily restricted	3,934,112	3,703,429
Permanently restricted	4,755,268	4,729,768
Total net assets	10,269,210	9,832,851
 Commitments and contingencies (note 9)		
Total liabilities and net assets	\$ 10,306,276	9,871,538

See accompanying notes to financial statements.

Denver Public Library Friends Foundation
Statement of Activities
Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains and Support:				
Contributions, bequests and grants	\$ 124,287	762,073	25,500	911,860
Memberships	299,616	-	-	299,616
Donated services and facilities (note 1m)	53,208	-	-	53,208
Gala revenue and support	274,443	-	-	274,443
Gala direct expenses	(116,815)	-	-	(116,815)
Book sales and other fundraising events	297,575	-	-	297,575
Direct expenses of book sales and other fundraising events	(11,835)	-	-	(11,835)
Investment return, net of management fees of \$59,259	162,174	963,675	-	1,125,849
Net assets released from restrictions:				
Restricted transfers to Library	1,450,683	(1,450,683)	-	-
Other expenditures	44,382	(44,382)	-	-
Reclassifications	-	-	-	-
Total revenue, gains and support	<u>2,577,718</u>	<u>230,683</u>	<u>25,500</u>	<u>2,833,901</u>
Expenses:				
Program services:				
Distributions to the Library (note 8)	1,664,096	-	-	1,664,096
Other Library program assistance	91,146	-	-	91,146
Bookshop	27,429	-	-	27,429
Total program	<u>1,782,671</u>	<u>-</u>	<u>-</u>	<u>1,782,671</u>
Supporting services:				
General and administrative	218,150	-	-	218,150
Fundraising expenses	396,721	-	-	396,721
Total supporting services	<u>614,871</u>	<u>-</u>	<u>-</u>	<u>614,871</u>
Total expenses	<u>2,397,542</u>	<u>-</u>	<u>-</u>	<u>2,397,542</u>
Change in net assets	180,176	230,683	25,500	436,359
Net assets, beginning of year	<u>1,399,654</u>	<u>3,703,429</u>	<u>4,729,768</u>	<u>9,832,851</u>
Net assets, end of year	<u><u>\$ 1,579,830</u></u>	<u><u>3,934,112</u></u>	<u><u>4,755,268</u></u>	<u><u>10,269,210</u></u>

See accompanying notes to financial statements.

Denver Public Library Friends Foundation
Statement of Activities
Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains and Support:				
Contributions, bequests and grants	\$ 250,540	300,039	225	550,804
Memberships	271,219	-	-	271,219
Donated services (note 1m)	73,120	-	-	73,120
Gala revenue and support	230,425	-	-	230,425
Gala direct expenses	(116,056)	-	-	(116,056)
Book sales and other fundraising events	232,767	-	-	232,767
Direct expenses of book sales and other fundraising events	(24,280)	-	-	(24,280)
Investment return, net of management fees of \$55,258	133,663	357,241	-	490,904
Net assets released from restrictions:				
Restricted transfers to Library	1,088,210	(1,088,210)	-	-
Other expenditures	64,136	(64,136)	-	-
Reclassifications	43,000	(43,000)	-	-
Total revenue, gains and support	<u>2,246,744</u>	<u>(538,066)</u>	<u>225</u>	<u>1,708,903</u>
Expenses:				
Program services:				
Distributions to the Library (note 8)	1,375,935	-	-	1,375,935
Other Library program assistance	66,368	-	-	66,368
Bookshop	19,803	-	-	19,803
Total program	<u>1,462,106</u>	<u>-</u>	<u>-</u>	<u>1,462,106</u>
Supporting services:				
General and administrative	194,285	-	-	194,285
Fundraising expenses	367,686	-	-	367,686
Total supporting services	<u>561,971</u>	<u>-</u>	<u>-</u>	<u>561,971</u>
Total expenses	<u>2,024,077</u>	<u>-</u>	<u>-</u>	<u>2,024,077</u>
Change in net assets	222,667	(538,066)	225	(315,174)
Net assets, beginning of year	1,176,987	4,241,495	4,729,543	10,148,025
Net assets, end of year	<u>\$ 1,399,654</u>	<u>3,703,429</u>	<u>4,729,768</u>	<u>9,832,851</u>

See accompanying notes to financial statements.

Denver Public Library Friends Foundation
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Contributions, bequests and grants	\$ 960,298	964,079
Memberships	299,616	271,219
Gala, book sales and other fundraising events	573,075	455,061
Interest and dividend income	177,238	176,298
Distributions to Denver Public Library	(1,664,096)	(1,375,935)
Cash paid to suppliers and employees	(847,885)	(769,616)
Net cash used in operating activities	<u>(501,754)</u>	<u>(278,894)</u>
Cash flows of investing activities:		
Purchase of equipment	-	(16,534)
Sales of long-term investments	329,259	325,258
Purchases of long-term investments and reinvested income	(212,624)	(359,165)
Net cash (used in) provided by investing activities	<u>116,635</u>	<u>(50,441)</u>
Cash flows from financing activities:		
Proceeds from contributions permanently restricted for endowment	<u>25,500</u>	<u>225</u>
Net decrease in cash and cash equivalents	(359,619)	(329,110)
Cash and cash equivalents at beginning of year	<u>1,009,049</u>	<u>1,338,159</u>
Cash and cash equivalents at end of year	<u>\$ 649,430</u>	<u>1,009,049</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 436,359	(315,174)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized (gains) losses on investments	(1,007,870)	(369,864)
Depreciation	5,582	2,965
Decrease in contributions receivable	73,938	413,500
Decrease (increase) in accounts receivable and other assets	1,057	(8,131)
Increase (decrease) in accounts payable and accrued expenses	14,680	(1,965)
Contributions permanently restricted for endowment	<u>(25,500)</u>	<u>(225)</u>
Net cash used in operating activities	<u>\$ (501,754)</u>	<u>(278,894)</u>

See accompanying notes to financial statements.

Denver Public Library Friends Foundation

Notes to Financial Statements

Years ended December 31, 2017 and 2016

(1) Summary of Significant Accounting Policies

(a) General

The Denver Public Library Friends Foundation (the "Foundation") was incorporated in 1981 as the result of the merger of the Friends of the Denver Public Library, founded in 1941, and the Denver Public Library Foundation, founded in 1964. The Foundation holds and manages the Denver Public Library's (the "Library") private funds and endowments, provides advocacy for the Library, and raises funds to enhance the Library's collection and to support services and programs for adults and children throughout the community of Denver.

(b) Basis of Accounting

The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting, and accordingly reflect all significant receivables, payables, and other accrued liabilities.

(c) Basis of Presentation

Information regarding the financial position and activities of the Foundation is reported according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

(d) Contributions, Bequests, and Grants

The Foundation accounts for contributions as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. When a 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 statement of activities as net assets released from restrictions.

The Foundation receives private gifts, grants and bequests on behalf of the Library. These gifts are recorded as restricted contributions to the Foundation's Special Use Fund at the time they are promised or received. When these funds are transferred to the Library, an expense is recorded and the restriction is released.

(e) Contributions Receivable

Unconditional contributions receivable are recognized as revenue in the period the pledge is received. Conditional promises are recognized as receivables and revenue when the conditions on which they depend are substantially met. Contributions receivable are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year.

Denver Public Library Friends Foundation

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(f) Cash and Cash Equivalents

The Foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less, and that are not part of the long-term investment portfolio, to be cash equivalents. Additionally, money held in the Special Use Fund is considered to be cash and cash equivalents for purposes of the cash flow statement.

(g) Accounts Receivable

Accounts receivable represent amounts due resulting from the performance of services provided to other organizations and individuals. The allowance for doubtful accounts is based on past experience and on analysis of the collectability of current accounts receivable. Accounts deemed uncollectible are charged to the allowance in the year that they are deemed uncollectible. Accounts receivable are considered to be past due based on contractual terms. There is no allowance for doubtful accounts at December 31, 2017 and 2016, as all receivables are deemed fully collectible.

(h) Long-Term Investments

The Foundation reports investments at fair value. Fair value is determined as more fully described under the fair value measurements footnote (note 4). In general, investments in marketable equity and fixed income securities with readily determinable market values are reported at fair value based upon quoted prices in active markets. For investments in alternative investments, the market value is based on information reported by investment managers.

Alternative investments are not publicly traded on national security exchanges, are generally illiquid, and may be valued differently should readily available markets exist for such investments. Because of inherent uncertainties of the valuation of alternative investments, the recorded market values of such investments may differ significantly from realizable values. The Foundation's management is responsible for the fair value measurement of investments reported in the financial statements and believes that the reported values are reasonable.

Investment return consists of any interest, dividends, and capital gains and losses generated from investments. Gains and losses attributable to investments are realized and reported upon a sale or disposition of the investment. Unrealized gains and losses are included in the change in net assets in the statements of activities.

Denver Public Library Friends Foundation

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(i) Concentrations of Credit Risk

The Foundation places its temporary cash and money market accounts with creditworthy, high-quality financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. A significant portion of the funds are not insured by the FDIC. The Foundation has significant investments in debt and equity securities and is therefore subject to concentrations of credit risk. Investments are made by investment managers engaged by the Foundation and the investments are monitored by the management of the Foundation. Though the market value of investments is subject to fluctuation on a year-to-year basis, management believes that the investment policy is prudent for the long-term welfare of the Foundation.

(j) Equipment

Equipment, which consists primarily of computers and related equipment, is recorded at cost, or if donated at the estimated fair value of the asset at the date of donation. Equipment is depreciated using the straight-line method over an estimated useful life of three years.

The Foundation is housed at the Denver Public Library and has the use of office equipment belonging to the Library without charge in exchange for certain services performed by the Foundation for the Library in kind. See note 1(m) for further information.

(k) Use of Estimates

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

(l) Memberships

Memberships are considered to be contributions to the Foundation rather than exchange transactions. Accordingly, membership payments are recorded as unrestricted contributions when received.

Denver Public Library Friends Foundation

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(m) Donated Services and Use of Facilities

The Library provides office space and other certain administrative services to the Foundation at no charge. The services are recorded as contributions and corresponding expenses at the Library's estimated cost which totaled \$53,208 and \$73,120 for 2017 and 2016, respectively. The expense has been recorded as general and administrative costs of \$10,400 and \$30,756, and fundraising costs of \$28,120 and \$42,364, in 2017 and 2016, respectively.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Foundation with specific programs and fundraising events; these were not recognized as contributions in the financial statements because the recognition criteria under generally accepted accounting principles were not met.

(n) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(o) Income Tax Status

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and qualifies for the charitable contribution deduction. However, income from activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. For the years ended December 31, 2017 and 2016, the Foundation did not have any unrelated trade or business income.

The Foundation follows the *Accounting for Uncertainty in Income Taxes* accounting standard which requires the Foundation to determine whether a tax position (and the related tax benefit) is more likely than not to be sustained upon examination by the applicable taxing authority, based solely on the technical merits of the position. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of December 31, 2017 or 2016. If incurred, interest and penalties associated with uncertain tax positions would be recorded in the period assessed as other operating expense. No interest or penalties have been assessed as of December 31, 2017. The Foundation's federal *Return of Organization Exempt from Income Tax* (Form 990) for the previous three years, 2014 through 2016, are subject to examination by the IRS, generally for three years after they were filed.

(p) Subsequent Events

Management is required to evaluate, through the date the financial statements are issued or available to be issued, events or transactions that may require recognition or disclosure in the financial statements, and to disclose the date through which subsequent events were evaluated. The Foundation's financial statements were available to be issued on May 10, 2018, and this is the date through which subsequent events were evaluated.

Denver Public Library Friends Foundation

Notes to Financial Statements, Continued

(2) Assets Held for Library

The Foundation received funds collected on behalf of the Library, which primarily resulted from certain branch book sales and other exchange transactions carried out by the Library. These funds are considered to be owned by the Library and amounted to \$16,301 at December 31, 2016. These assets held for the library were accounted for as both an asset and a liability on the statements of financial position.

(3) Long-Term Investments

Investments held are recorded in the following net asset classes at December 31:

	<u>2017</u>	<u>2016</u>
Permanently restricted net assets	\$ 4,755,268	4,729,768
Unexpended earnings on permanently restricted net assets, classified as temporarily restricted	2,358,501	1,656,110
Other temporarily restricted net assets	232,332	208,355
Board designated and other endowment	<u>958,823</u>	<u>831,275</u>
Endowment investments (note 7)	8,304,924	7,425,508
Unrestricted net assets	<u>169,773</u>	<u>157,954</u>
	<u>\$ 8,474,697</u>	<u>7,583,462</u>

Investments are stated at fair value and consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 145,728	212,638
Mutual funds invested in fixed income securities	2,455,595	2,524,801
Equity securities and mutual funds invested in equity securities	<u>5,873,374</u>	<u>4,846,023</u>
	<u>\$ 8,474,697</u>	<u>7,583,462</u>

The changes in investments are as follows:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 7,583,462	7,179,691
Reinvested interest and dividend income	177,099	175,444
Net realized and unrealized gains (losses)	1,007,870	369,864
Less investment expenses	<u>(59,259)</u>	<u>(55,258)</u>
Net investment (loss) income	1,125,710	490,050
Additional investments	35,525	183,721
Distributions to DPL	<u>(270,000)</u>	<u>(270,000)</u>
Balance, end of year	<u>\$ 8,474,697</u>	<u>7,583,462</u>

Denver Public Library Friends Foundation

Notes to Financial Statements, Continued

(3) Long-Term Investments, Continued

In addition, the Foundation earned interest of \$139 and \$854 on its interest bearing cash accounts for the years ended December 31, 2017 and 2016, respectively.

(4) Fair Value Measurements

The Foundation reports required types of financial instruments in accordance with fair value accounting standards. Fair value is 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. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. Fair value measurement standards also require the Foundation to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique. Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments which are generally included in this category include listed equity and debt securities publicly traded on an exchange, listed derivatives, cash and cash equivalents.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate and government bonds, less liquid and restricted equity securities and certain over-the-counter derivatives.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include limited partnership interests in corporate private equity and real estate funds, funds of hedge funds, and distressed debt.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. These classifications (Level 1, 2 and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

Denver Public Library Friends Foundation

Notes to Financial Statements, Continued

(4) Fair Value Measurements, Continued

The following table summarized the valuation of the Foundation's financial instruments by the above fair value hierarchy levels as of December 31, 2016:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 145,728	145,728	-	-
Mutual funds invested in fixed income securities	2,455,595	2,455,595	-	-
Equity securities and mutual funds invested in equity securities	<u>5,873,374</u>	<u>5,873,374</u>	<u>-</u>	<u>-</u>
Total	\$ <u>8,474,697</u>	<u>8,474,697</u>	<u>-</u>	<u>-</u>

The following table summarized the valuation of the Foundation's financial instruments by the above fair value hierarchy levels as of December 31, 2016:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 212,638	212,638	-	-
Mutual funds invested in fixed income securities	2,524,801	2,524,801	-	-
Equity securities and mutual funds invested in equity securities	<u>4,846,023</u>	<u>4,846,023</u>	<u>-</u>	<u>-</u>
Total	\$ <u>7,583,462</u>	<u>7,583,462</u>	<u>-</u>	<u>-</u>

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument, as well as the effects of market, interest and credit risk. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in the Foundation's financial statements.

Denver Public Library Friends Foundation

Notes to Financial Statements, Continued

(5) Contributions Receivable

Contributions receivable consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Amounts due in:		
Less than one year	\$ 586,110	436,000
One to five years	<u>575,952</u>	<u>800,000</u>
	<u>\$ 1,162,062</u>	<u>1,236,000</u>

No discount has been recorded as its effect on the financial statements is not significant. Management believes these to be fully collectible, and as such, no allowance for uncollectible receivables has been recorded.

(6) Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Contributions restricted for specific purposes	\$ 181,217	603,107
Contributions receivable	1,162,062	1,236,000
Unappropriated endowment earnings and other temporarily restricted funds held in endowment	<u>2,590,833</u>	<u>1,864,322</u>
	<u>\$ 3,934,112</u>	<u>3,703,429</u>

During 2017 and 2016, temporarily restricted net assets of \$1,495,065 and \$1,152,222 were released from restrictions by incurring expenses satisfying purpose restrictions or the passage of time.

(7) Endowments

The Foundation's endowments consist of both donor-restricted and board designated endowment funds. As required by generally accepted accounting principles, net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Denver Public Library Friends Foundation

Notes to Financial Statements, Continued

(7) Endowments, Continued

The Foundation's permanently restricted net assets consist of several individual endowment funds established for a variety of purposes. Permanently restricted net assets at December 31, 2017 and 2016 are comprised of the following:

	<u>2017</u>	<u>2016</u>
Endowments supporting Western History	\$ 3,648,961	3,648,561
Library Capital Campaign Endowment	426,568	426,568
Other donor endowments	<u>679,739</u>	<u>654,639</u>
	<u>\$ 4,755,268</u>	<u>4,729,768</u>

The State of Colorado adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective September 1, 2008. The Foundation has interpreted UPMIFA 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 Board in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, 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 purpose of the endowment fund 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 endowment fund resources
- (7) The investment policies of the endowment fund.

Denver Public Library Friends Foundation

Notes to Financial Statements, Continued

(7) Endowments, Continued

The Foundation's endowment net assets consist of the following as of December 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (4,417)	2,590,833	4,755,268	7,341,684
Board designated endowment funds	<u>963,240</u>	<u>-</u>	<u>-</u>	<u>963,240</u>
	<u>\$ 958,823</u>	<u>2,590,833</u>	<u>4,755,268</u>	<u>8,304,924</u>

The Foundation's endowment net assets consist of the following as of December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (32,503)	1,864,322	4,729,768	6,561,587
Board designated endowment funds	<u>863,897</u>	<u>-</u>	<u>-</u>	<u>863,897</u>
	<u>\$ 831,394</u>	<u>1,864,322</u>	<u>4,729,768</u>	<u>7,425,484</u>

Denver Public Library Friends Foundation

Notes to Financial Statements, Continued

(7) Endowments, Continued

Following are the changes in the endowment net assets for the years ended December 31, 2016 and 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2016	\$ 571,095	1,723,391	4,729,543	7,024,029
Gifts	150,396	-	225	150,621
Transfers	43,000	-	-	43,000
Investment return:				
Investment income, net of expense	27,249	80,721	-	107,970
Net depreciation (realized and unrealized)	<u>93,344</u>	<u>276,520</u>	<u>-</u>	<u>369,864</u>
Total investment return	120,593	357,241	-	477,834
Appropriation of endowment assets for expenditure	<u>(53,690)</u>	<u>(216,310)</u>	<u>-</u>	<u>(270,000)</u>
Endowment net assets December 31, 2016	831,394	1,864,322	4,729,768	7,425,484
Gifts	-	-	25,500	25,500
Investment return:				
Investment income, net of expense	16,803	101,037	-	117,840
Net depreciation (realized and unrealized)	<u>143,462</u>	<u>862,638</u>	<u>-</u>	<u>1,006,100</u>
Total investment return	160,265	963,675	-	1,123,940
Appropriation of endowment assets for expenditure (note 8)	<u>(32,836)</u>	<u>(237,164)</u>	<u>-</u>	<u>(270,000)</u>
Endowment net assets December 31, 2017	\$ <u>958,823</u>	<u>2,590,833</u>	<u>4,755,268</u>	<u>8,304,924</u>

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 generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were \$4,417 and \$32,563, as of December 31, 2017 and 2016, respectively. These deficiencies resulted from the timing of the original gift and unfavorable market fluctuations.

Denver Public Library Friends Foundation

Notes to Financial Statements, Continued

(7) Endowments, Continued

Return Objectives and Risk Parameters

Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity as well as board-designated funds. The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a reasonable, predictable, stable and sustainable level of distribution to the Library that supports current needs and provides for growth in assets and income over time. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce a long-term rate of return that preserves the purchasing power of the endowment as well as providing a consistent distribution to the Library. The rate of return has been based upon the assumption that future real returns will approximate the long-term rates of return experienced for each asset class in the investment portfolio. 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 a diversified asset allocation to achieve its long-term return objectives.

Distribution Policy and How the Investment Objectives Relate to Distribution Policy

The Foundation has a policy of appropriating for distribution each year a percentage, up to 6.5% of the three-year December 31 rolling average of the unitized market value of the investments. This policy applies to restricted and unrestricted funds unless those funds have their own distribution requirements.

The Foundation's objective is to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

In determining the annual grant to the Library, the Board may make an exception to the distribution policy.

Denver Public Library Friends Foundation

Notes to Financial Statements, Continued

(8) Transactions with Denver Public Library

Distributions

Distributions from the Foundation to the Denver Public Library during 2017 and 2016 were funded from the following sources:

	<u>2017</u>	<u>2016</u>
Special Use Fund (note 1d)	\$ 1,213,519	871,900
Endowment fund earnings	270,000	270,000
Other unrestricted sources	<u>208,006</u>	<u>253,838</u>
Total distributions	1,691,525	1,395,738
Other Library program assistance	<u>91,146</u>	<u>66,368</u>
	<u>\$1,782,671</u>	<u>1,462,106</u>

Other Transactions

In addition to the distributions listed above, the Foundation reimbursed the Library for administrative expenses in the amounts of \$1,400 and \$12,225 for the years ended December 31, 2017 and 2016, respectively. In 2016, the Foundation reimbursed the Library for net used book sales attributable to decommissioned library books totaling \$12,189. As of 2017, the Foundation is no longer required to reimburse the Library for used books. At December 31, 2017 and 2016, the Foundation has recorded payables to the Library in the amounts of \$1,400 and \$12,225, respectively.

Agreement

During 2013, the Foundation and the Library finalized an agreement, which formalized certain responsibilities and expectations of the relationship and dealings with each other. The agreement terminates December 31, 2021, but can be terminated earlier by either party with six months notice.

In July 2016 the Council of the City and County of Denver approved an ordinance allowing the Library to donate used books throughout the year to the Foundation for the purpose of selling used books to the public. Therefore, the Foundation no longer reimburses the Library for net used book sales attributable to decommissioned library books and no funds are being held on behalf of the Library at December 31, 2017.

(9) Employee Benefit Plan

The Foundation has a 403(b) pension plan under which it will match 50% of the pre-tax contributions of eligible employees up to six percent of salary. Matching funds are fully vested after 2 years. Eligible employees have completed six months of service and attained the age of 21 years. For 2017 and 2016, the Foundation's matching contribution totaled \$6,307 and \$7,594, respectively.

Denver Public Library Friends Foundation
Supplemental Schedule of Changes in Net Assets
Year Ended December 31, 2017

Net Asset Category	Balance January 1, 2017	Support and Revenue	Expenses and Interfund Transfers	Balance December 31, 2017
<u>Permanently Restricted</u>				
Western History Endowments (note 7)	\$ 3,648,561	400	-	3,648,961
Library Capital Campaign- Western History				
Acquisitions	426,568	-	-	426,568
Gravelle Endowment	452,984	100	-	453,084
Jordan Endowment	48,198	-	-	48,198
Dolmas Endowment	25,275	-	-	25,275
Rickey Endowment	25,000	-	-	25,000
Massa Endowment	25,000	-	-	25,000
Benson Endowment	-	25,000	-	25,000
Latino Awards Endowment	24,300	-	-	24,300
Literary Club	8,082	-	-	8,082
Scott Memorial	6,127	-	-	6,127
Pershing Memorial	5,149	-	-	5,149
Ehrlich Endowment	5,000	-	-	5,000
Sabin Memorial	2,483	-	-	2,483
Other endowment funds	27,041	-	-	27,041
	<u>4,729,768</u>	<u>25,500</u>	<u>-</u>	<u>4,755,268</u>
<u>Temporarily Restricted</u>				
Endowment Fund:				
Undistributed endowment earnings	1,655,951	932,138	(229,588)	2,358,501
Smiley Branch Collection	96,114	14,547	(3,495)	107,166
Classen Western History	79,956	12,101	(2,907)	89,150
Wilkin Memorial	32,301	4,889	(1,174)	36,016
	<u>1,864,322</u>	<u>963,675</u>	<u>(237,164)</u>	<u>2,590,833</u>
Earlier is Easier	37,683	16,095	(44,382)	9,396
Special Use Fund:				
10th Mt. Division and Other Western History	92,032	56,879	-	148,911
Branches and departments	391,922	109,888	(401,120)	100,690
Tu Biblioteca	790,147	500,076	(543,976)	746,247
After School, Summer Reading, Read Aloud	527,323	79,135	(268,423)	338,035
Other restricted gifts	-	-	-	-
Subtotal Special Use fund	<u>1,801,424</u>	<u>745,978</u>	<u>(1,213,519)</u>	<u>1,333,883</u>
	<u>3,703,429</u>	<u>1,725,748</u>	<u>(1,495,065)</u>	<u>3,934,112</u>
<u>Unrestricted</u>				
Board Designated :				
General Endowment	863,897	130,753	(31,410)	963,240
Undesignated:				
Endowment fund deficits	(32,503)	29,512	(1,426)	(4,417)
Other unrestricted	568,260	907,700	(854,953)	621,007
	<u>535,757</u>	<u>937,212</u>	<u>(856,379)</u>	<u>616,590</u>
	<u>\$ 9,832,851</u>	<u>2,819,213</u>	<u>(2,382,854)</u>	<u>10,269,210</u>

See accompanying independent auditor's report.