

**Denver Public Library Friends  
Foundation**

**Financial Statements and Supplementary Information**

**December 31, 2018 and 2017**

**(With Independent Auditor's Report Thereon)**

*Kundinger, Corder & Engle, P.C.*

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*Certified Public Accountants*

## **Independent Auditor's Report**

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

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of Denver Public Library Friends Foundation (the Foundation), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, 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, 2018 and 2017, 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.

**Emphasis of Matter**

As discussed in note 1, the Foundation adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities as of and for the year ended December 31, 2018. The requirements of the ASU have been applied retrospectively for all years presented. Our opinion is not modified with respect to this matter.

**Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Changes in Net Assets on page 21 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.

*Kennedinger, Cochrane & Congle, P.C.*

April 17, 2019

**Denver Public Library Friends Foundation**  
**Statements of Financial Position**  
**December 31, 2018 and 2017**

	2018	2017
<b>Assets</b>		
Cash and cash equivalents		
Operating	\$ 596,846	461,306
Special Use Fund	1,051,620	188,124
Accounts receivable and other assets	2,043	11,254
Contributions receivable (note 5)	589,952	1,162,062
Investments (notes 3 and 4)	7,602,587	8,474,697
Equipment, net of accumulated depreciation of \$39,748 in 2018 and \$34,237 in 2017	5,397	8,833
Total assets	\$ 9,848,445	10,306,276
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 20,366	37,066
Total liabilities	20,366	37,066
Net assets (notes 6 and 7)		
Net assets without donor restrictions		
Board designated endowment fund	860,679	963,240
Undesignated	766,191	616,590
Total net assets without donor restrictions	1,626,870	1,579,830
Net assets with donor restrictions	8,201,209	8,689,380
Total net assets (page 21)	9,828,079	10,269,210
Commitment (note 9)		
Total liabilities and net assets	\$ 9,848,445	10,306,276

See the accompanying notes to the financial statements.

**Denver Public Library Friends Foundation**  
**Statement of Activities**  
**Year Ended December 31, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, Gains and Support</b>			
Contributions, bequests and grants	\$ 433,115	463,327	896,442
Memberships	138,126	–	138,126
Donated services and facilities	54,578	–	54,578
Booklovers Ball revenue and support	257,039	–	257,039
Booklovers Ball direct expenses	(119,559)	–	(119,559)
Book sales and other fundraising events	277,909	–	277,909
Direct expenses of book sales and other fundraising events	(36,939)	–	(36,939)
Investment return (note 3)	(57,069)	(545,070)	(602,139)
Net assets released from restrictions			
Restricted transfers to Denver Public Library	384,973	(384,973)	–
Other expenditures	21,455	(21,455)	–
Total revenue, gains and support	<u>1,353,628</u>	<u>(488,171)</u>	<u>865,457</u>
<b>Expenses</b>			
Program services			
Distributions to Denver Public Library	641,119	–	641,119
Other Library program assistance	22,051	–	22,051
Bookshop	40,635	–	40,635
Total program services	<u>703,805</u>	<u>–</u>	<u>703,805</u>
Supporting services			
General and administrative	196,582	–	196,582
Fund raising	406,201	–	406,201
Total supporting services	<u>602,783</u>	<u>–</u>	<u>602,783</u>
Total expenses	<u>1,306,588</u>	<u>–</u>	<u>1,306,588</u>
<b>Change in net assets</b>	47,040	(488,171)	(441,131)
<b>Net assets at beginning of year</b>	<u>1,579,830</u>	<u>8,689,380</u>	<u>10,269,210</u>
<b>Net assets at end of year</b>	<u>\$ 1,626,870</u>	<u>8,201,209</u>	<u>9,828,079</u>

See the accompanying notes to the financial statements.

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

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, Gains and Support</b>			
Contributions, bequests and grants	\$ 124,287	787,573	911,860
Memberships	299,616	–	299,616
Donated services	53,208	–	53,208
Booklovers Ball revenue and support	274,443	–	274,443
Booklovers Ball 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 (note 3)	162,174	963,675	1,125,849
Net assets released from restrictions			
Restricted transfers to Denver Public Library	1,450,683	(1,450,683)	–
Other expenditures	44,382	(44,382)	–
	<u>2,577,718</u>	<u>256,183</u>	<u>2,833,901</u>
<b>Expenses</b>			
Program services			
Distributions to Denver Public Library	1,664,096	–	1,664,096
Other Library program assistance	91,146	–	91,146
Bookshop	27,429	–	27,429
	<u>1,782,671</u>	<u>–</u>	<u>1,782,671</u>
Supporting services			
General and administrative	218,150	–	218,150
Fund raising	396,721	–	396,721
	<u>614,871</u>	<u>–</u>	<u>614,871</u>
Total expenses	<u>2,397,542</u>	<u>–</u>	<u>2,397,542</u>
<b>Change in net assets</b>	180,176	256,183	436,359
<b>Net assets at beginning of year</b>	<u>1,399,654</u>	<u>8,433,197</u>	<u>9,832,851</u>
<b>Net assets at end of year</b>	<u>\$ 1,579,830</u>	<u>8,689,380</u>	<u>10,269,210</u>

See the accompanying notes to the financial statements.

**Denver Public Library Friends Foundation**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2018**

	Total program services	General and admin- istrative	Fund raising	Total supporting services	Total expenses
Salaries and wages	\$ —	90,307	247,357	337,664	337,664
Payroll taxes	—	6,668	18,200	24,868	24,868
Employee benefits	—	9,945	26,888	36,833	36,833
Occupancy	17,520	5,670	15,330	21,000	38,520
Technology/IT	—	1,320	14,327	15,647	15,647
Supplies	—	1,201	4,253	5,454	5,454
Advertising and promotion	—	—	1,128	1,128	1,128
Postage	12,753	819	2,213	3,032	15,785
Conferences and meetings	—	702	2,739	3,441	3,441
Travel	—	1,619	—	1,619	1,619
Professional fees	20,597	57,709	18,048	75,757	96,354
Insurance	—	4,379	—	4,379	4,379
EIE	1,108	—	—	—	1,108
Distributions to the Library	641,119	—	—	—	641,119
Book shop activities	5,524	—	—	—	5,524
Fund raising	—	—	53,944	53,944	53,944
Depreciation	4,838	—	673	673	5,511
Miscellaneous	346	16,243	1,101	17,344	17,690
	<u>\$ 703,805</u>	<u>196,582</u>	<u>406,201</u>	<u>602,783</u>	<u>1,306,588</u>

See the accompanying notes to the financial statements.

**Denver Public Library Friends Foundation**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2017**

	Total program services	General and admin- istrative	Fund raising	Total supporting services	Total expenses
Salaries and wages	\$ —	100,762	260,008	360,770	360,770
Payroll taxes	—	7,302	20,638	27,940	27,940
Employee benefits	—	11,036	5,982	17,018	17,018
Occupancy	—	14,072	39,136	53,208	53,208
Technology/IT	—	9,890	—	9,890	9,890
Supplies	—	2,631	2,815	5,446	5,446
Conferences and meetings	160	3,877	4,721	8,598	8,758
Travel	—	—	1,050	1,050	1,050
Professional fees	68,912	51,148	150	51,298	120,210
Insurance	—	4,482	—	4,482	4,482
EIE	13,723	—	—	—	13,723
Distributions to the Library	1,664,096	—	—	—	1,664,096
Book shop activities	27,429	—	—	—	27,429
Fund raising	—	—	56,238	56,238	56,238
Depreciation	4,838	45	699	744	5,582
Miscellaneous	3,513	12,905	5,284	18,189	21,702
	<u>\$ 1,782,671</u>	<u>218,150</u>	<u>396,721</u>	<u>614,871</u>	<u>2,397,542</u>

See the accompanying notes to the financial statements.



**Denver Public Library Friends Foundation**  
**Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**

	2018	2017
<b>Cash flows from operating activities</b>		
Contributions, bequests and grants	\$ 1,458,052	960,298
Memberships	138,126	299,616
Gala, book sales and other fundraising events	544,159	573,075
Interest and dividend income	189,656	177,238
Distributions to Denver Public Library	(641,119)	(1,664,096)
Cash paid to suppliers and employees	(840,370)	(847,885)
Net cash provided by (used in) operating activities	848,504	(501,754)
<b>Cash flows of investing activities</b>		
Purchase of equipment	(2,075)	—
Sales of investments	331,792	329,259
Purchases of investments and reinvested income	(189,685)	(212,624)
Net cash provided by investing activities	140,032	116,635
<b>Cash flows from financing activities</b>		
Proceeds from contributions permanently restricted for endowment	10,500	25,500
<b>Net increase (decrease) in cash and cash equivalents</b>	999,036	(359,619)
<b>Cash and cash equivalents at beginning of year</b>	649,430	1,009,049
<b>Cash and cash equivalents at end of year</b>	\$ 1,648,466	649,430
<b>Reconciliation of change in net assets to net cash provided by (used in) operating activities</b>		
Change in net assets	\$ (441,131)	436,359
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized (gains) losses on investments	730,003	(1,007,870)
Depreciation	5,511	5,582
Decrease in contributions receivable	572,110	73,938
Decrease in accounts receivable and other assets	9,211	1,057
Increase (decrease) in accounts payable and accrued expenses	(16,700)	14,680
Contributions permanently restricted for endowment	(10,500)	(25,500)
<b>Net cash provided by (used in) operating activities</b>	\$ 848,504	(501,754)

See the accompanying notes to the financial statements.

# Denver Public Library Friends Foundation

## Notes to Financial Statements

Years Ended December 31, 2018 and 2017

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### (1) Summary of Significant Accounting Policies

#### (a) Organization

The Denver Public Library Friends Foundation (the Foundation) was incorporated in 1981 as a 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) Financial Statement Presentation

The Foundation is required to present information regarding its financial position and activities according to the following net asset classifications:

*Net assets without donor restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expensed for any purpose in performing the primary objectives of the Foundation. These net assets may be used at the discretion of the Foundation's management and the board of directors.

*Net assets with donor restrictions:* Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

#### (d) Cash and Cash Equivalents

The Foundation considers all 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 statements of cash flows.

# Denver Public Library Friends Foundation

## Notes to Financial Statements, Continued

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### **(1) Summary of Significant Accounting Policies**

#### **(e) Concentrations of Credit Risk**

The Foundation places its 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.

#### **(f) 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.

#### **(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, 2018 and 2017, as all receivables are deemed fully collectible.

# Denver Public Library Friends Foundation

## Notes to Financial Statements, Continued

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### **(1) Summary of Significant Accounting Policies, Continued**

#### **(h) Contributions, Bequests, and Grants**

The Foundation accounts for contributions as net assets without donor restrictions or net assets with donor restrictions, depending on the existence or nature of any donor-imposed restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements 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.

#### **(i) 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.

#### **(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 in-kind services performed by the Foundation for the Library. See note 1(l) also.

#### **(k) Memberships**

Memberships are considered to be contributions to the Foundation rather than exchange transactions. Accordingly, membership payments are recorded as contributions without donor restrictions when received.

#### **(l) 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 \$54,578 and \$53,208 for 2018 and 2017, respectively. The expense has been recorded as general and administrative costs of \$6,762 and \$14,072, fundraising costs of \$17,543 and \$39,136, and programs costs of \$30,273 and \$0, in 2018 and 2017, respectively.

# Denver Public Library Friends Foundation

## Notes to Financial Statements, Continued

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### (1) Summary of Significant Accounting Policies, Continued

#### (l) Donated Services and Use of Facilities, Continued

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.

#### (m) 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 functional expenses. The Foundation incurs expenses that directly relate to, and can be assigned to, a specific program or supporting activity. The Foundation also conducts a numbers of activities which benefit both its program objectives as well as supporting services (i.e. fundraising and management and general activities). These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting services benefited, based on either financial or nonfinancial data, such as square footage or estimates of time and effort incurred by personnel.

#### (n) 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.

#### (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 2018 and 2017, 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, 2018 or 2017. 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, 2018. The Foundation's federal *Return of Organization Exempt from Income Tax* (Form 990) for the previous three years, 2015 through 2017, are subject to examination by the IRS, generally for three years after they were filed.

# Denver Public Library Friends Foundation

## Notes to Financial Statements, Continued

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### (1) Summary of Significant Accounting Policies, Continued

#### (p) Subsequent Events

The Foundation has evaluated subsequent events through April 17, 2019, the date the financial statements were available to be issued.

#### (q) Not-for-Profit Financial Statement Presentation

During 2018, the Foundation adopted ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment returns, and cash flows. The guidance replaces the three classes of net assets previously presented in the statements of financial position with two new classes of net assets, which are based on the existence or absence of donor-imposed restrictions.

#### (r) Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation. The reclassifications had no effect on net assets or the change in net assets.

### (2) Liquidity and Availability of Financial Assets

The following reflects the Foundation's financial assets as of December 31, 2018, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid, not convertible to cash within one year, or when restricted by donors for purposes more limited than general expenditures. Amounts not available include amounts set aside for long-term investing in the quasi-endowment that could be drawn upon if the governing board approves that action. However, amounts already appropriated from either the donor-restricted endowment or quasi-endowment for general expenditure within one year of the balance sheet date have not been subtracted as unavailable.

Financial assets at year-end	
Cash and cash equivalents	\$ 596,846
Investments	7,602,587
Accounts receivable, net	2,043
Contributions receivable	<u>589,952</u>
Total financial assets at year-end	\$ <u>8,791,428</u>

# Denver Public Library Friends Foundation

## Notes to Financial Statements, Continued

### (2) Liquidity and Availability of Financial Assets, Continued

Less amounts unavailable for general expenditures within one year due to:

Restricted by donors with time or purpose restrictions other than general expenditures or to be spent in more than one year from the balance sheet date	\$ (1,042,408)
Perpetual endowments and accumulated earnings subject to appropriation beyond one year (Endowment, less budgeted disbursements for 2019)	(6,572,825)
Total amounts unavailable for general expenditures within one year	(7,615,233)

Amounts unavailable to management without Board approval:

Board designated endowments	<u>(860,679)</u>
Financial assets available for general expenditures within one year	\$ <u>315,516</u>

In addition to investment return and membership, book sales, and special event revenue, the Foundation is substantially supported by contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Foundation must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Foundation invests cash in excess of daily requirements in short-term investments. Occasionally, the board designates a portion of any operating surplus to its liquidity reserve, which was \$860,679 as of December 31, 2018. In the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities, the Foundation could draw upon its board designated endowment funds.

### (3) Investments

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

	<u>2018</u>	<u>2017</u>
Net assets with donor restrictions	\$ 4,765,742	4,755,268
Unexpended earnings on permanently restricted net assets, classified as temporarily restricted	1,599,444	2,358,501
Other temporarily restricted net assets	207,639	232,332
Board designated and other endowment	<u>860,679</u>	<u>958,823</u>
Endowment investments (note 7)	7,433,504	8,304,924
Unrestricted net assets	<u>169,083</u>	<u>169,773</u>
	\$ <u>7,602,587</u>	<u>8,474,697</u>

## Denver Public Library Friends Foundation

### Notes to Financial Statements, Continued

#### (3) Investments, Continued

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

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 184,062	145,728
Mutual funds invested in fixed income securities	2,952,359	2,455,595
Equity securities and mutual funds invested in equity securities	<u>4,466,166</u>	<u>5,873,374</u>
Total investments	<u>\$ 7,602,587</u>	<u>8,474,697</u>

The changes in investments are as follows:

	<u>2018</u>	<u>2017</u>
Balances at beginning of year	\$ 8,474,697	7,583,462
Reinvested interest and dividend income	189,685	177,099
Net realized and unrealized gains (losses)	(730,032)	1,007,870
Less investment expenses	<u>(61,792)</u>	<u>(59,259)</u>
Investment return	(602,139)	1,125,710
Additional investments	-	35,525
Distributions to DPL	<u>(270,000)</u>	<u>(270,000)</u>
Balances at end of year	<u>\$ 7,602,587</u>	<u>8,474,697</u>

In addition, the Foundation earned interest of \$139 in 2017 on its interest bearing cash accounts.

Subsequent to year-end, the Foundation's 2018 unrealized losses on its investments were substantially recouped.

#### (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:

All of the Foundation's investments totaling \$7,602,587 and \$8,474,697 at December 31, 2018 and 2017, respectively, are considered to be Level 1 financial instruments. For Level 1 financial instruments, 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.



## Denver Public Library Friends Foundation

### Notes to Financial Statements, Continued

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#### (5) Contributions Receivable

Contributions receivable consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Amounts due in:		
Less than one year	\$ 589,952	586,110
One to five years	<u>—</u>	<u>575,952</u>
	<u>\$ 589,952</u>	<u>1,162,062</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) Net Asset with Donor Restrictions

Net assets with donor restrictions at December 31 consisted of the following:

	<u>2018</u>	<u>2017</u>
Contributions restricted for specific purposes	\$ 1,042,408	181,217
Contributions receivable	589,952	1,162,062
Unappropriated endowment earnings and other temporarily restricted funds held in endowment	<u>1,807,083</u>	<u>2,590,833</u>
	<u>\$ 3,439,443</u>	<u>3,934,112</u>

During 2018 and 2017, net assets with donor restrictions of \$406,428 and \$1,495,065 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.

The Foundation's net assets with donor restriction consist of several individual endowment funds established with donor restrictions that the principal remain intact and the earnings be used for a variety of purposes. At December 31, these are comprised of the following:

	<u>2018</u>	<u>2017</u>
Endowments supporting Western History	\$ 3,648,961	3,648,961
Library Capital Campaign Endowment	426,568	426,568
Other donor endowments	<u>690,213</u>	<u>679,739</u>
	<u>\$ 4,765,742</u>	<u>4,755,268</u>

# Denver Public Library Friends Foundation

## Notes to Financial Statements, Continued

### (7) Endowments, Continued

The State of Colorado adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and 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 retains in perpetuity the original value of the gifts donated for the endowment. The unspent accumulated earnings of the donor-restricted endowment fund are classified as net assets with donor restrictions 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.

The Foundation's endowment net assets consist of the following at December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	6,572,825	6,572,825
Board designated endowment funds	<u>860,679</u>	<u>-</u>	<u>860,679</u>
Total endowment net assets	<u>\$ 860,679</u>	<u>6,572,825</u>	<u>7,433,504</u>

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

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	7,341,684	7,341,684
Board designated endowment funds	<u>963,240</u>	<u>-</u>	<u>963,240</u>
Total endowment net assets	<u>\$ 963,240</u>	<u>7,341,684</u>	<u>8,304,924</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, 2017 and 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets at January 1, 2017	\$ 831,394	6,594,090	7,425,484
Gifts	–	25,500	25,500
Investment return			
Investment income, net of expense	16,803	101,037	117,840
Net appreciation (realized and unrealized)	<u>143,462</u>	<u>862,638</u>	<u>1,006,100</u>
Total investment return	160,265	963,675	1,123,940
Appropriation of endowment assets for expenditure	<u>(32,836)</u>	<u>(237,164)</u>	<u>(270,000)</u>
Endowment net assets at December 31, 2017	958,823	7,346,101	8,304,924
Gifts	–	10,500	10,500
Investment return			
Investment income, net of expense	14,836	113,059	127,895
Net depreciation (realized and unrealized)	<u>(81,660)</u>	<u>(658,155)</u>	<u>(739,815)</u>
Total investment return	(66,824)	(545,096)	(611,920)
Appropriation of endowment assets for expenditure (note 8)	<u>(31,320)</u>	<u>(238,680)</u>	<u>(270,000)</u>
Endowment net assets at December 31, 2018	\$ <u>860,679</u>	<u>6,572,825</u>	<u>7,433,504</u>

#### Underwater Endowments

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. Deficiencies of this nature exist in seven donor-restricted endowment funds, which together have a beginning gift value of \$56,388 and a current fair value of (\$39,687), due to a loss of (\$96,075) as of December 31, 2018. This loss resulted from unfavorable market fluctuations that occurred after continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

#### Underwater Endowments, Continued

The Foundation has a policy that permits spending from underwater endowments funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations. The governing board appropriated for expenditure \$28,780 from underwater endowment funds during the year.

# 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 funds without and with donor restrictions 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.

### (8) Transactions with Denver Public Library

#### Distributions

Distributions from the Foundation to the Denver Public Library during 2018 and 2017 were funded from the following sources:

	<u>2018</u>	<u>2017</u>
Special Use Fund	\$ 146,441	1,213,519
Endowment fund earnings	270,000	270,000
Other unrestricted sources	<u>224,678</u>	<u>180,577</u>
Total distributions	641,119	1,664,096
Bookshop	40,635	27,429
Other Library program assistance	<u>22,051</u>	<u>91,146</u>
	\$ <u>703,805</u>	<u>1,782,671</u>

## Denver Public Library Friends Foundation

### Notes to Financial Statements, Continued

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#### **(8) Transactions with Denver Public Library, Continued**

##### Other Transactions

In addition to the distributions listed above, the Foundation reimbursed the Library for administrative expenses in the amounts of \$0 and \$1,400 for the years ended December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, the Foundation has recorded payables to the Library in the amounts of \$0 and \$1,400, 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, 2018.

#### **(9) Employee Benefit Plan**

The Foundation has a 403(b) defined contribution 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 two years. Eligible employees have completed six months of service and attained the age of 21 years. For 2018 and 2017, the Foundation's matching contribution totaled \$3,192 and \$6,307, respectively.

**Denver Public Library Friends Foundation**  
**Schedule of Changes in Net Assets**  
**Year Ended December 31, 2018**

Net Asset Category	Balance January 1, 2018	Support and Revenue	Expenses and Interfund Transfers	Balance December 31, 2018
<b>Perpetuity</b>				
Western History Endowments	\$ 3,648,961	-	-	3,648,961
Library Capital Campaign- Western History				
Acquisitions	426,568	-	-	426,568
Gravelle Endowment	453,084	-	-	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	10,500	-	35,500
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	-	(26)	27,015
Total net assets held in perpetuity	<u>4,755,268</u>	<u>10,500</u>	<u>(26)</u>	<u>4,765,742</u>
<b>Purpose</b>				
Endowment Fund				
Undistributed endowment earnings	2,358,501	(527,932)	(231,125)	1,599,444
Smiley Branch Collection	107,166	(7,906)	(3,485)	95,775
Classen Western History	89,150	(6,576)	(2,899)	79,675
Wilkin Memorial	36,016	(2,656)	(1,171)	32,189
Total Endowment Fund	<u>2,590,833</u>	<u>(545,070)</u>	<u>(238,680)</u>	<u>1,807,083</u>
Earlier is Easier	9,396	15,000	(21,455)	2,941
Special Use Fund				
10th Mt. Division and Other Western History	148,911	52,929	(118,034)	83,806
Branches and departments	100,690	305,109	(72,072)	333,727
Tu Biblioteca	746,247	16,700	52,315	815,262
After School, Summer Reading, Read Aloud	338,035	63,113	(8,500)	392,648
Total Special Use Fund	<u>1,333,883</u>	<u>437,851</u>	<u>(146,291)</u>	<u>1,625,443</u>
Total net assets with donor restrictions (purpose)	<u>3,934,112</u>	<u>(92,219)</u>	<u>(406,426)</u>	<u>3,435,467</u>
Total net assets with donor restrictions	8,689,380	(81,719)	(406,452)	8,201,209
<b>Without Donor Restrictions</b>				
Board Designated				
General Endowment	963,240	(71,241)	(31,320)	860,679
Undesignated				
Endowment fund deficits	(4,417)	4,417	-	-
Other unrestricted	621,007	1,420,452	(1,275,268)	766,191
Total undesignated	<u>616,590</u>	<u>1,424,869</u>	<u>(1,275,268)</u>	<u>766,191</u>
Total net assets	<u>\$ 10,269,210</u>	<u>1,271,909</u>	<u>(1,713,040)</u>	<u>9,828,079</u>

See the accompanying independent auditor's report.