

**Denver Public Library Friends
Foundation**

Financial Statements and Supplementary Information

December 31, 2019 and 2018

(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

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, 2019 and 2018, 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.

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, 2019 and 2018, 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.

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

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 22 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, Cochrane & Congle, P.C.

April 22, 2020

Denver Public Library Friends Foundation
Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents (note 3)		
Operating	\$ 503,382	596,846
Restricted Funds - DPL	556,720	1,051,620
A Story Still to Tell	216,731	-
Accounts receivable and inventory	5,848	2,043
Contributions receivable (note 5)	131,260	589,952
Investments (note 4)	8,687,724	7,602,587
Equipment, net of accumulated depreciation of \$43,606 in 2019 and \$39,748 in 2018	1,539	5,397
Total assets	\$ 10,103,204	9,848,445
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 34,605	20,366
Deferred revenue	10,000	-
Total liabilities	44,605	20,366
Net assets (notes 6 and 7)		
Net assets without donor restrictions		
Board designated endowment fund	980,196	860,679
Undesignated	679,896	766,191
Total net assets without donor restrictions	1,660,092	1,626,870
Net assets with donor restrictions	8,398,507	8,201,209
Total net assets	10,058,599	9,828,079
Commitment and contingency (notes 9 and 10)		
Total liabilities and net assets	\$ 10,103,204	9,848,445

See the accompanying notes to the financial statements.

Denver Public Library Friends Foundation
Statement of Activities
Year Ended December 31, 2019

	Without donor restrictions	With donor restrictions	Total
Revenue, Gains and Support			
Contributions, bequests and grants	\$ 417,131	859,601	1,276,732
Memberships	135,901	–	135,901
Donated services and facilities	58,701	–	58,701
Booklovers Ball revenue and support	309,719	–	309,719
Booklovers Ball direct expenses	(135,971)	–	(135,971)
Book sales and other fundraising events	282,532	–	282,532
Direct expenses of book sales and other fundraising events	(34,836)	–	(34,836)
Investment return (note 4)	193,425	1,128,705	1,322,130
Net assets released from restrictions (note 6)			
Restricted transfers to Denver Public Library	1,786,241	(1,786,241)	–
Other expenditures	4,767	(4,767)	–
	<u>3,017,610</u>	<u>197,298</u>	<u>3,214,908</u>
Expenses			
Program services			
Distributions to Denver Public Library	2,044,424	–	2,044,424
Other Library program assistance	46,785	–	46,785
Bookshop	47,203	–	47,203
	<u>2,138,412</u>	<u>–</u>	<u>2,138,412</u>
Supporting services			
General and administrative	228,141	–	228,141
Fund raising	617,835	–	617,835
	<u>845,976</u>	<u>–</u>	<u>845,976</u>
	<u>2,984,388</u>	<u>–</u>	<u>2,984,388</u>
Change in net assets	33,222	197,298	230,520
Net assets at beginning of year	<u>1,626,870</u>	<u>8,201,209</u>	<u>9,828,079</u>
Net assets at end of year	<u>\$ 1,660,092</u>	<u>8,398,507</u>	<u>10,058,599</u>

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
Revenue, Gains and Support			
Contributions, bequests and grants	\$ 433,115	463,327	896,442
Memberships	138,126	–	138,126
Donated services	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 4)	(57,069)	(545,070)	(602,139)
Net assets released from restrictions (note 6)			
Restricted transfers to Denver Public Library	384,973	(384,973)	–
Other expenditures	21,455	(21,455)	–
	<u>1,353,628</u>	<u>(488,171)</u>	<u>865,457</u>
Expenses			
Program services			
Distributions to Denver Public Library	641,119	–	641,119
Other Library program assistance	22,051	–	22,051
Bookshop	40,635	–	40,635
	<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
	<u>602,783</u>	<u>–</u>	<u>602,783</u>
	<u>1,306,588</u>	<u>–</u>	<u>1,306,588</u>
Change in net assets	47,040	(488,171)	(441,131)
Net assets at beginning of year	<u>1,579,830</u>	<u>8,689,380</u>	<u>10,269,210</u>
Net assets at end of year	<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 Functional Expenses
Year Ended December 31, 2019

	Total program services	General and admin- istrative	Fund raising	Total supporting services	Total expenses
Salaries and wages	\$ —	108,218	362,419	470,637	470,637
Payroll taxes	—	8,769	34,984	43,753	43,753
Employee benefits	—	16,546	50,564	67,110	67,110
Occupancy	17,250	6,300	14,700	21,000	38,250
Technology/IT	—	1,600	14,456	16,056	16,056
Supplies	534	3,506	2,414	5,920	6,454
Advertising and promotion	4,035	—	49,972	49,972	54,007
Postage	15,714	1,542	2,986	4,528	20,242
Conferences and meetings	1,348	1,555	17,818	19,373	20,721
Travel	—	1,011	592	1,603	1,603
Professional fees	—	70,679	54,762	125,441	125,441
Special event expenses	—	—	170,807	170,807	170,807
Investment fees	—	59,813	—	59,813	59,813
Insurance	—	3,198	—	3,198	3,198
Earlier is Easier expenses	4,767	—	—	—	4,767
Distributions to the Library	2,080,424	—	—	—	2,080,424
Book shop activities	11,088	—	—	—	11,088
Fund raising	—	—	7,542	7,542	7,542
Depreciation	3,252	—	606	606	3,858
Miscellaneous	—	5,217	4,020	9,237	9,237
	<u>2,138,412</u>	<u>287,954</u>	<u>788,642</u>	<u>1,076,596</u>	<u>3,215,008</u>
Less expenses included with revenue in the statement of activities					
Special event expenses	—	—	(170,807)	(170,807)	(170,807)
Investment fees	—	(59,813)	—	(59,813)	(59,813)
	<u>—</u>	<u>(59,813)</u>	<u>—</u>	<u>(59,813)</u>	<u>(59,813)</u>
Total expenses	<u>\$ 2,138,412</u>	<u>228,141</u>	<u>617,835</u>	<u>845,976</u>	<u>2,984,388</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
Special event expenses	—	—	176,628	176,628	176,628
Investment fees	—	61,792	—	61,792	61,792
Insurance	—	4,379	—	4,379	4,379
Earlier is Easier expenses	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>258,374</u>	<u>582,829</u>	<u>841,203</u>	<u>1,545,008</u>
Less expenses included with revenue in the statement of activities					
Special event expenses	—	—	(176,628)	(176,628)	(176,628)
Investment fees	—	(61,792)	—	(61,792)	(61,792)
	<u>—</u>	<u>(61,792)</u>	<u>—</u>	<u>(61,792)</u>	<u>(61,792)</u>
Total expenses	<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
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Contributions, bequests and grants	\$ 1,723,924	1,458,052
Memberships	135,901	138,126
Gala, book sales and other fundraising events	588,446	544,159
Interest and dividend income	216,020	189,656
Distributions to Denver Public Library	(2,044,424)	(641,119)
Cash paid to suppliers and employees	(1,083,786)	(840,370)
Net cash provided by (used in) operating activities	(463,919)	848,504
Cash flows of investing activities		
Purchase of equipment	–	(2,075)
Sales of investments	309,813	331,792
Purchases of investments and reinvested income	(229,027)	(189,685)
Net cash provided by investing activities	80,786	140,032
Cash flows from financing activities		
Proceeds from contributions permanently restricted for endowment	11,500	10,500
Net increase (decrease) in cash and cash equivalents	(371,633)	999,036
Cash and cash equivalents at beginning of year	1,648,466	649,430
Cash and cash equivalents at end of year	\$ 1,276,833	1,648,466
Reconciliation of change in net assets to net cash provided by (used in) operating activities		
Change in net assets	\$ 230,520	(441,131)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Realized and unrealized (gains) losses on investments	(1,165,923)	730,003
Depreciation	3,858	5,511
Decrease in contributions receivable	458,692	572,110
Decrease (increase) in accounts receivable and inventory	(3,805)	9,211
Increase (decrease) in accounts payable and accrued expenses	14,239	(16,700)
Increase in deferred revenue	10,000	–
Contributions permanently restricted for endowment	(11,500)	(10,500)
Net cash provided by (used in) operating activities	\$ (463,919)	848,504

See the accompanying notes to the financial statements.

Denver Public Library Friends Foundation

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

(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 expended 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 Restricted Funds – DPL and A Story Still to Tell 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

(1) Summary of Significant Accounting Policies, Continued

(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 1g). 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.

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) Fair Value Measurements

Fair value is defined as 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. Generally accepted accounting principles in the U.S. establishes a fair value hierarchy that prioritizes investments based on the assumptions market participants would use when pricing an asset. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs).

Assets are grouped at fair value in three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.
- Level 2 Inputs other than quoted market prices that are observable for the asset/liability, either directly or indirectly.
- Level 3 Unobservable inputs that cannot be corroborated by observable market data.

Denver Public Library Friends Foundation

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(g) Fair Value Measurements, Continued

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment'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.

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.

(h) 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(j) also.

(i) Revenue Recognition

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.

Contributions, bequests, and grants, continued

The Foundation receives private gifts, grants and bequests on behalf of the Library. These gifts are recorded as restricted contributions to the Foundation's Restricted Fund - DPL 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.

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

(i) Revenue Recognition, Continued

Membership dues

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.

Fundraising events

Fundraising events revenue consists of ticket sales and sponsorships for the Booklovers Ball and the sale of used books at the bi-annual used book sales. Ticket sales and sponsorships may be received in advance of the event taking place and are recorded as deferred revenue. Used book sales amounts are recorded as revenue the day the sale takes place.

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, 2019 and 2018, as all receivables are deemed fully collectible.

(j) 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 \$58,701 and \$54,578 for 2019 and 2018, respectively. The expense has been recorded as general and administrative costs of \$7,941 and \$6,762, fundraising costs of \$17,526 and \$17,543, and programs costs of \$33,234 and \$30,273, in 2019 and 2018, 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.

(k) 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 number of activities which benefit both its program objectives as well as supporting services (i.e. fund raising and general and administrative 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.

Denver Public Library Friends Foundation

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(l) 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.

(m) 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 2019 and 2018, 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, 2019 or 2018. 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, 2019. The Foundation's federal *Return of Organization Exempt from Income Tax* (Form 990) for the previous three years, 2016 through 2018, are subject to examination by the IRS, generally for three years after they were filed.

(n) Subsequent Events

The Foundation has evaluated subsequent events through April 22, 2020, the date the financial statements were available to be issued.

(o) 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.

(p) New Accounting Pronouncements

During 2019, the Foundation adopted Accounting Standard Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Foundation has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective method. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2018-08.

Denver Public Library Friends Foundation

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(p) New Accounting Pronouncements, Continued

During 2019, the Foundation adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the modified retrospective method. The update supersedes the revenue recognition requirements in *Revenue Recognition (Topic 605)* and requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, this guidance requires that entities disclose the nature, amount, timing, and uncertainty of revenue and cash flow arising from contracts with customers. The adoption of Topic 606 did not significantly impact the Foundation's statements of activities or statements of financial position; therefore, no cumulative adjustment to beginning net assets was required as a result of adoption.

During 2019, the Foundation also adopted ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The update requires entities to include restricted cash in the total of cash and cash equivalents when presenting the change during the year in the statements of cash flows. Additionally, this guidance requires that entities disclose a reconciliation to the statements of financial position either on the face of the statements of cash flows or in the footnotes. The nature of material restrictions are disclosed at note 3.

(2) Liquidity and Availability of Financial Assets

The following reflects the Foundation's financial assets as of December 31, 2019 and 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.

Denver Public Library Friends Foundation

Notes to Financial Statements, Continued

(2) Liquidity and Availability of Financial Assets, Continued

	<u>2019</u>	<u>2018</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 1,276,833	1,648,466
Investments	8,687,724	7,602,587
Accounts receivable, net	5,848	2,043
Contributions receivable	<u>131,260</u>	<u>589,952</u>
Total financial assets at year-end	<u>10,101,665</u>	<u>9,843,048</u>
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	(775,257)	(1,038,432)
Contributions received due in more than one year	(84,560)	-
Perpetual endowments and accumulated earnings subject to appropriation beyond one year:		
Endowment net assets	<u>(7,491,990)</u>	<u>(6,572,825)</u>
Total amounts unavailable for general expenditures within one year	(8,351,807)	(7,611,257)
Amounts unavailable without Board approval		
Board designated endowments	<u>(980,196)</u>	<u>(860,679)</u>
Financial assets available for general expenditures within one year	\$ <u>769,662</u>	<u>1,371,112</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 \$980,196 and \$860,679 as of December 31, 2019 and 2018, respectively. 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) Cash and Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statements of financial position that sum to the total of the same such amounts shown in the statement of cash flows.

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 503,382	596,846
Restricted cash		
Restricted Funds – DPL	556,720	1,051,620
A Story Still to Tell Capital Campaign	<u>216,731</u>	<u>-</u>
Total cash and cash equivalents, and restricted cash shown in the statements of cash flows	\$ <u>1,276,833</u>	<u>1,648,466</u>

Denver Public Library Friends Foundation

Notes to Financial Statements, Continued

(4) Investments

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

	<u>2019</u>	<u>2018</u>
Net assets with donor restrictions	\$ 4,777,242	4,765,742
Unexpended earnings on endowments	2,478,336	1,599,444
Other net assets with donor restrictions	236,412	207,639
Board designated endowment fund	<u>980,196</u>	<u>860,679</u>
Endowment investments (note 7)	8,472,186	7,433,504
Unrestricted net assets	<u>215,538</u>	<u>169,083</u>
	<u>\$ 8,687,724</u>	<u>7,602,587</u>

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

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 248,102	184,062
Mutual funds invested in fixed income securities	2,968,352	2,952,359
Equity securities and mutual funds invested in equity securities	<u>5,471,270</u>	<u>4,466,166</u>
Total investments	<u>\$ 8,687,724</u>	<u>7,602,587</u>

The changes in investments are as follows:

	<u>2019</u>	<u>2018</u>
Balances at beginning of year	\$ 7,602,587	8,474,697
Reinvested interest and dividend income	206,802	189,685
Net realized and unrealized gains (losses)	1,165,923	(730,003)
Less investment expenses	<u>(59,813)</u>	<u>(61,792)</u>
Investment return	1,312,912	(602,110)
Additional investments	22,225	-
Distributions to DPL	<u>(250,000)</u>	<u>(270,000)</u>
Balances at end of year	<u>\$ 8,687,724</u>	<u>7,602,587</u>

In addition, the Foundation earned interest of \$9,218 in 2019 and \$0 in 2018 on its interest bearing cash accounts.

All of the Foundation's investments totaling \$8,687,724 and \$7,602,587 at December 31, 2019 and 2018, 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

(5) Contributions Receivable

Contributions receivable consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Amounts due in:		
Less than one year	\$ 46,700	589,952
One to five years	89,800	-
Less discount	<u>(5,240)</u>	<u>-</u>
	\$ <u>131,260</u>	<u>589,952</u>

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>2019</u>	<u>2018</u>
Contributions restricted for specific purposes	\$ 775,257	1,038,432
Contributions receivable (note 5)	131,260	589,952
Unappropriated endowment earnings and other temporarily restricted funds held in endowment	2,714,748	1,807,083
Endowment subject to appropriation and expenditure	<u>4,777,242</u>	<u>4,765,742</u>
Total net assets with donor restrictions	\$ <u>8,398,507</u>	<u>8,201,209</u>

During 2019 and 2018, net assets with donor restrictions of \$1,791,008 and \$406,428 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>2019</u>	<u>2018</u>
Endowments supporting Western History	\$ 3,648,961	3,648,961
Library Capital Campaign Endowment	426,568	426,568
Other donor endowments	<u>701,713</u>	<u>690,213</u>
	\$ <u>4,777,242</u>	<u>4,765,742</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, 2019:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	7,491,990	7,491,990
Board designated endowment funds	980,196	-	980,196
Total endowment net assets	\$ <u>980,196</u>	<u>7,491,990</u>	<u>8,472,186</u>

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

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	6,572,825	6,572,825
Board designated endowment funds	860,679	-	860,679
Total endowment net assets	\$ <u>860,679</u>	<u>6,572,825</u>	<u>7,433,504</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, 2018 and 2019:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets at January 1, 2018	\$ 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	<u>(31,320)</u>	<u>(238,680)</u>	<u>(270,000)</u>
Endowment net assets at December 31, 2018	860,679	6,572,825	7,433,504
Gifts	225	11,500	11,725
Investment return			
Investment income, net of expense	17,027	129,963	146,990
Net appreciation (realized and unrealized)	<u>131,224</u>	<u>998,743</u>	<u>1,129,967</u>
Total investment return	148,251	1,128,706	1,276,957
Appropriate of endowment assets for expenditure	<u>(28,959)</u>	<u>(221,041)</u>	<u>(250,000)</u>
Endowment net assets at December 31, 2019	\$ <u>980,196</u>	<u>7,491,990</u>	<u>8,472,186</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 one donor-restricted endowment fund, which has a beginning gift value of \$48,198 and a current fair value of \$44,488 as of December 31, 2019. This (\$3,710) underwater endowment resulted from unfavorable market fluctuations that occurred after continued appropriation for a certain program that was deemed prudent by the Foundation Board of Trustees.

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 \$1,315 from underwater endowment funds during 2019.

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.

Denver Public Library Friends Foundation

Notes to Financial Statements, Continued

(7) Endowments, Continued

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 2019 and 2018 were funded from the following sources:

	<u>2019</u>	<u>2018</u>
Restricted Funds - DPL	\$ 1,565,225	146,441
Endowment fund earnings	250,000	270,000
Other unrestricted sources	<u>268,051</u>	<u>224,678</u>
Total distributions	2,083,276	641,119
Bookshop	44,322	40,635
Other Library program assistance	<u>46,814</u>	<u>22,051</u>
	\$ <u>2,174,412</u>	<u>703,805</u>

Agreement

During 2019, 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, 2029, 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, 2019.

(9) Employee Retirement 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 2019 and 2018, the Foundation's matching contribution totaled \$9,519 and \$3,192, respectively.

Denver Public Library Friends Foundation

Notes to Financial Statements, Continued

(10) Subsequent Events

COVID-19

In recent days, the COVID-19 pandemic has caused business disruption in numerous sectors of the economy. As a result of the spread of the COVID-19 virus, economic uncertainties have arisen which are likely to have a negative impact on some of the Foundation's activities. The Foundation has implemented various initiatives to reduce the impact of COVID-19, such as employees working remotely from home, while also seeking to maintain the Foundation's mission to support the Library through fund raising activities.

Although the related financial impact and duration cannot be reasonably estimated at this time, COVID-19 has impacted, and may further impact, the Foundation's mission in various ways, including, but not limited, to:

- Difficult market and economic conditions have adversely impacted the value of investments. As a point of reference, the S&P 500 Index has declined 20% and the Foundation's investments have declined 15% since the beginning of fiscal year 2020.
- Limitations on social distancing requirements implemented in response to COVID-19 may challenge the Foundation's ability to raise funds, in particular the Story Still to Tell capital campaign.

Paycheck Protection Program

Subsequent to year-end, on April 15, 2020, the Foundation was approved for a loan under the Paycheck Protection Program authorized under the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act). The \$101,214 in loan proceeds which were received on April 22, 2020 must be used within eight weeks after loan issuance and may only be used for purposes that are permissible under the program, including payroll costs. If the Foundation meets the program requirements, the loan may be forgiven after eight weeks.

Denver Public Library Friends Foundation
Schedule of Changes in Net Assets
Year Ended December 31, 2019

Net Asset Category	Balance January 1, 2019	Support and Revenue	Expenses and Interfund Transfers	Balance December 31, 2019
Perpetuity				
Western History Endowments	\$ 3,648,961	-	-	3,648,961
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	35,500	11,500	-	47,000
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	27,015	-	-	27,015
Total net assets held in perpetuity	<u>4,765,742</u>	<u>11,500</u>	<u>-</u>	<u>4,777,242</u>
Purpose				
Endowment Fund				
Undistributed endowment earnings	1,599,444	1,092,948	(214,056)	2,478,336
Smiley Branch Collection	95,775	16,494	(3,222)	109,047
Classen Western History	79,675	13,721	(2,680)	90,716
Wilkin Memorial	32,189	5,543	(1,083)	36,649
Total Endowment Fund	<u>1,807,083</u>	<u>1,128,706</u>	<u>(221,041)</u>	<u>2,714,748</u>
Earlier is Easier	2,941	1,827	(4,768)	-
A Story Still to Tell	-	328,798	-	328,798
Restricted Funds - DPL				
10th Mt. Division and Other Western History	83,806	60,765	(68,989)	75,582
Branches and departments	333,727	371,161	(257,756)	447,132
Tu Biblioteca	815,262	8,100	(815,362)	8,000
After School, Summer Reading, Read Aloud	392,648	77,475	(423,118)	47,005
Total Restricted Funds - DPL	<u>1,625,443</u>	<u>517,501</u>	<u>(1,565,225)</u>	<u>577,719</u>
Total net assets with donor restrictions (purpose)	<u>3,435,467</u>	<u>1,976,832</u>	<u>(1,791,034)</u>	<u>3,621,265</u>
Total net assets with donor restrictions	8,201,209	1,988,332	(1,791,034)	8,398,507
Without Donor Restrictions				
Board Designated				
General Endowment	860,679	148,476	(28,959)	980,196
Undesignated				
Other without donor restriction	766,191	2,869,133	(2,955,428)	679,896
Total undesignated	<u>766,191</u>	<u>2,869,133</u>	<u>(2,955,428)</u>	<u>679,896</u>
Total net assets	<u>\$ 9,828,079</u>	<u>5,005,941</u>	<u>(4,775,421)</u>	<u>10,058,599</u>

See the accompanying independent auditor's report.