

**Houston Public
Library Foundation**

FINANCIAL STATEMENTS

June 30, 2016 and 2015



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**Houston Public Library Foundation
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June 30, 2016 and 2015**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Houston Public Library Foundation
Houston, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Houston Public Library Foundation (a component unit of the City of Houston), as of and for the years ended June 30, 2016 and 2015 and the related notes to the financial statements, which comprise Houston Public Library Foundation's basic financial statements as listed in the table of contents.

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 opinions 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 our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of Houston Public Library Foundation, as of June 30, 2016 and 2015, and the respective changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

In February 2015 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 72, *Fair Value Measurement and Application*. As discussed in note 2, Statement 72 is effective for Houston Public Library Foundation's fiscal year ended June 30, 2016. Statement 72 provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Carly Riggs & Ingram, L.L.C.

Houston, Texas
September 27, 2016

Houston Public Library Foundation Management's Discussion and Analysis

This discussion and analysis of Houston Public Library Foundation's (the Foundation) financial statements provides an overview of the Foundation's financial performance during the years ended June 30, 2016 and 2015. This discussion and analysis includes comparative data for the years ended June 30, 2016 and June 30, 2015 with a brief explanation for significant changes between fiscal years. Since the Management's Discussion and Analysis is designed to focus on current activities, resulting changes and current known facts, please read in conjunction with the Foundation's basic financial statements and the footnotes.

FINANCIAL HIGHLIGHTS

Fiscal 2016

- The Foundation made its annual grant to the Houston Public Library (HPL) in the amount of \$960,000. The funds are issued in accordance with programmatic restrictions established by the original donors.
- Investment income performance fluctuated throughout fiscal year 2016, resulting in a modest \$238,000 return, bringing the total investments to \$19.4 million.
- As of June 30, 2016, the Foundation held \$15.7 million for HPL programs, including the original \$2.1 million corpus of the Foundation's endowments that is permanently restricted.

Fiscal 2015

- The Foundation made its annual grant to the Houston Public Library (HPL) in the amount of \$920,000. This grant is to fund a wide variety of Library initiatives including books and materials, programming for all Houstonians, as well as staff training and development.
- Investment income lagged in the fiscal year 2015 due to weak market performance, resulting in a \$584,000 return, bringing the total investments to \$20.85 million.
- As of June 30, 2015, the Foundation held \$16.5 million for HPL programs, including the original \$2.1 million corpus of the Foundation's endowments.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Foundation's basic financial statements. According to the definition by the Governmental Accounting Standards Board, the Foundation qualifies as a special purpose government with one program – support and advocacy for the Houston Public Library.

Government-wide financial statements reflect an economic resources measurement focus and are prepared using the accrual basis of accounting. The government-wide financial statements are designed to provide readers with a broad overview of the Foundation's finances, in a manner similar to a private-sector business.

The Statement of Net Position shows the financial position of the Foundation at year end by presenting the Foundation's assets and liabilities, with the difference between assets and liabilities presented as net position. The statement of activities presents information showing changes in the Foundation's net position during the year. Changes in net position are reported when an underlying event giving rise to a change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

Houston Public Library Foundation Management's Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Governmental fund financial statements reflect a current financial resources measurement focus and are prepared using the modified accrual basis of accounting. Unlike the government-wide financial statements, the governmental fund financial statements present information showing the near-term inflows and outflows of spendable resources and the balances of spendable resources at year end. Reconciliation between the government-wide financial statements and the governmental fund financial statements is reflected in a separate adjustments column.

Statement of Net Position

The Statement of Net Position includes all assets and liabilities using the accrual basis of accounting. The following table reflects condensed information on the Foundation's net position:

<i>June 30,</i>	2016	2015	Increase (Decrease) 2016 -2015	2014	Increase (Decrease) 2015 -2014
Cash and investments	\$ 20,321,185	\$ 21,541,111	\$ (1,219,926)	\$ 21,885,257	\$ (344,146)
Other assets	40,119	81,965	(41,846)	420,135	(338,170)
Total assets	\$ 20,361,304	\$ 21,623,076	\$ (1,261,772)	\$ 22,305,392	\$ (682,316)
Total liabilities	\$ 493,255	\$ 428,583	\$ 64,672	\$ 188,368	\$ 240,215
Net position					
Restricted	\$ 15,707,444	\$ 16,547,687	\$ (840,243)	\$ 16,990,852	\$ (443,165)
Unrestricted	4,160,605	4,646,806	(486,201)	5,126,172	(479,366)
Total net position	\$ 19,868,049	\$ 21,194,493	\$ (1,326,444)	\$ 22,117,024	\$ (922,531)

Houston Public Library Foundation Management's Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Statement of Activities

The Statement of Activities presents the operating results of the Foundation. The following table reflects condensed information on the Foundation's operations:

<i>For the years ended June 30,</i>	2016	2015	Increase (Decrease) 2016 -2015	2014	Increase (Decrease) 2015 -2014
Expenses					
Programmatic	\$ 1,888,696	\$ 2,018,319	\$ (129,623)	\$ 2,305,455	\$ (287,136)
Write-down in fair value of in-kind pledge	-	-	-	444,580	(444,580)
Other	271,506	280,281	(8,775)	238,045	42,236
Total expenses	2,160,202	2,298,600	(138,398)	2,988,080	(689,480)
Revenues					
Investment income	238,398	584,192	(345,794)	3,407,008	(2,822,816)
Contributions and other income	595,360	791,877	(196,517)	702,559	89,318
Total revenue	833,758	1,376,069	(542,311)	4,109,567	(2,733,498)
Changes in net position	(1,326,444)	(922,531)	(403,913)	1,121,487	(2,044,018)
Net position, beginning of year	21,194,493	22,117,024	(922,531)	20,995,537	1,121,487
Net position, end of year	\$ 19,868,049	\$ 21,194,493	\$ (1,326,444)	\$ 22,117,024	\$ (922,531)

Fiscal 2016

The Foundation's portfolio was negatively impacted by the downturn in the market. The investment income reflects the modest gains in the value of certain securities as well dividend income. The year overall return for the portfolio showed a modest 1.2% return. The total value of the portfolio at June 30, 2016 was approximately \$19.4 million and represents a decreased position over the prior year.

Non-investment revenues related to contributions, special events, and book sales decreased 25%.

The other assets balance at June 30, 2016, which comprises pledges receivable and prepaids, was approximately \$40,000, which represents a decreased position over the prior year due to collections.

Houston Public Library Foundation Management's Discussion and Analysis

Fiscal 2015

The Foundation's portfolio was negatively impacted by the downturn in the market. The investment income reflects the modest gains in the value of certain securities as well dividend income. The year overall return for the portfolio showed a modest 2.8% return. The total value of the portfolio at June 30, 2015 was approximately \$20.85 million and represents a decreased position over the prior year.

Non-investment revenues related to contributions, special events, and book sales increased 13%. At year end the Friends of the Houston Public Library awarded a \$85,000 grant HPL, which is included as part of accounts payable.

The other assets balance at June 30, 2015, which comprises pledges receivable and intangible assets, was \$81,000, which represents a decreased position over the prior year due to collections.

Governmental Funds

At June 30, 2016, the Foundation's governmental funds reported combined ending fund balances of approximately \$19.8 million, which is an approximately \$1,285,000 decrease over the prior year. Approximately 10% of this total amount or \$2.0 million is assigned for long-term investment by the Foundation. Approximately 9% of this total amount or \$1.9 million is committed for library programs. Approximately 10% of this total amount or \$2.1 million is the original corpus of the Foundation's endowments and is being maintained in perpetuity. Approximately 1% of this total or \$257,000 is unassigned. The remainder 70% of the fund balance is restricted, indicating that it is restricted for library programs and library staff benefits.

At June 30, 2015, the Foundation's governmental funds reported combined ending fund balances of approximately \$21.1 million, which is an approximately \$584,000 decrease over the prior year. Approximately 11% of this total amount or \$2.3 million is assigned for long-term investment by the Foundation. Approximately 9% of this total amount or \$2.1 million is committed for library programs. Approximately 10% of this total amount or \$2.1 million is the original corpus of the Foundation's endowments and is being maintained in perpetuity. Approximately 2% of this total or \$430,000 is unassigned. The remainder 68% of the fund balance is restricted, indicating that it is restricted for library programs and library staff benefits.

FUTURE PROJECTS

In Fiscal 2017, the Foundation will get back to business basics. The staff and volunteer leadership will create a three-year strategic plan focused on organizational growth and the diversification of revenue sources. The realized goals will lead the Foundation into a strong financial position that not only increases funding for essential library programs but also establishes strong partnerships and collaborations within the community. This growth mindset will lead to a culture of philanthropy where everyone involved is valued as being essential to mission delivery and the achievement of the organizational vision.



Houston Public Library Foundation Management's Discussion and Analysis

FUTURE PROJECTS (Continued)

Friends of the Houston Public Library and the Foundation share the common goal of supporting the Houston Public Library system, so in the original spirit of the merger started ten years ago, the partners are combining resources and focus. The intended benefit will be an organization that builds upon respective strengths while creating operational efficiencies. Friends of the Houston Public Library will continue to be the public-facing organization that readers throughout Houston have grown to love, and the Foundation will focus on matching the Library's program activities with philanthropists, organizations, and businesses who share our vision for a better tomorrow.

NOTES TO FINANCIAL STATEMENTS

The reader is referred to the notes to the financial statements for a more complete understanding of the financial statements of the Foundation. They contain a summary of the significant accounting policies as well as other information.

* * * * *

The financial report is designed to discuss issues that may be material to the operation of the Foundation. Questions concerning any of the information in this report or requests for additional information should be addressed to Houston Public Library Foundation, 550 McKinney Street Houston, TX 77002.

Houston Public Library Foundation Governmental Funds Balance Sheet and Statement of Net Position

<i>June 30, 2016</i>	General Fund	Permanent Fund	Total	Adjustments	Statement of Net Position
Assets					
Cash	\$ 672,881	\$ 207,132	\$ 880,013	\$ -	\$ 880,013
Investments	77,081	19,364,091	19,441,172	-	19,441,172
Pledges receivable	-	36,122	36,122	-	36,122
Other assets	-	-	-	3,997	3,997
Total assets	\$ 749,962	\$ 19,607,345	\$ 20,357,307	\$ 3,997	\$ 20,361,304
Liabilities and fund balances					
Liabilities					
Accrued expenses and grant payable	\$ 47,218	\$ -	\$ 47,218	\$ -	47,218
Funds held for others	446,037	-	446,037	-	446,037
Unearned revenue	-	36,122	36,122	(36,122)	-
Total liabilities	493,255	36,122	529,377	(36,122)	493,255
Fund balances					
Nonspendable					
Library programs	-	2,021,039	2,021,039	(2,021,039)	-
Library staff benefits	-	45,000	45,000	(45,000)	-
Restricted for					
Library programs	-	13,111,401	13,111,401	(13,111,401)	-
Library staff benefits	-	489,885	489,885	(489,885)	-
Committed for library programs	-	1,874,754	1,874,754	(1,874,754)	-
Assigned for long-term investment	-	2,029,144	2,029,144	(2,029,144)	-
Unassigned	256,707	-	256,707	(256,707)	-
Total fund balances	256,707	19,571,223	19,827,930	(19,827,930)	-
Total liabilities and fund balances	\$ 749,962	\$ 19,607,345	\$ 20,357,307	\$ -	\$ -
Net position					
Restricted for					
Library programs and staff benefits				\$ 13,641,405	\$ 13,641,405
Endowment for library programs and staff benefits				2,066,039	2,066,039
Unrestricted				4,160,605	4,160,605
Total net position				\$ 19,868,049	\$ 19,868,049
Total fund balances of governmental funds					\$ 19,827,930
Amounts reported for governmental activities in the statement of net position are different because:					
Other assets used in governmental activities are not financial resources and therefore are not reported in the funds					3,997
Pledges receivable are not available for current period expenditures and therefore are deferred in the funds					36,122
Net position of governmental activities					\$ 19,868,049

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

Houston Public Library Foundation Governmental Funds Balance Sheet and Statement of Net Position

<i>June 30, 2015</i>	General Fund	Permanent Fund	Total	Adjustments	Statement of Net Position
Assets					
Cash	\$ 482,945	\$ 206,461	\$ 689,406	\$ -	\$ 689,406
Investments	376,056	20,475,649	20,851,705	-	20,851,705
Pledges receivable	-	72,699	72,699	-	72,699
Intangible assets, net	-	-	-	9,266	9,266
Total assets	\$ 859,001	\$ 20,754,809	\$ 21,613,810	\$ 9,266	\$ 21,623,076
Liabilities and fund balances					
Liabilities					
Accrued expenses and grant payable	\$ 177,589	\$ -	\$ 177,589	\$ -	177,589
Funds held for others	250,994	-	250,994	-	250,994
Unearned revenue	-	72,699	72,699	(72,699)	-
Total liabilities	428,583	72,699	501,282	(72,699)	428,583
Fund balances					
Nonspendable					
Library programs	-	2,021,039	2,021,039	(2,021,039)	-
Library staff benefits	-	45,000	45,000	(45,000)	-
Restricted for					
Library programs	-	13,960,537	13,960,537	(13,960,537)	-
Library staff benefits	-	439,146	439,146	(439,146)	-
Committed for library programs	-	1,955,821	1,955,821	(1,955,821)	-
Assigned for long-term investment	-	2,260,567	2,260,567	(2,260,567)	-
Unassigned	430,418	-	430,418	(430,418)	-
Total fund balances	430,418	20,682,110	21,112,528	(21,112,528)	-
Total liabilities and fund balances	\$ 859,001	\$ 20,754,809	\$ 21,613,810	\$ -	\$ -
Net position					
Restricted for					
Library programs and staff benefits				\$ 14,481,648	\$ 14,481,648
Endowment for library programs and staff benefits				2,066,039	2,066,039
Unrestricted				4,646,806	4,646,806
Total net position				\$ 21,194,493	\$ 21,194,493
Total fund balances of governmental funds					\$ 21,112,528
Amounts reported for governmental activities in the statement of net position are different because:					
Intangible assets used in governmental activities are not financial resources and therefore are not reported in the funds					9,266
Pledges receivable are not available for current period expenditures and therefore are deferred in the funds					72,699
Net position of governmental activities					\$ 21,194,493

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

Houston Public Library Foundation Governmental Funds Revenues, Expenditures, and Changes in Fund Balances and Statement of Activities

<i>For the year ended June 30, 2016</i>	General Fund	Permanent Fund	Total	Adjustments	Statement of Activities
Expenditures/Expenses					
Programmatic	\$ 1,883,427	\$ -	\$ 1,883,427	\$ 5,269	\$ 1,888,696
Fundraising	40,579	-	40,579	-	40,579
Management and general	210,491	-	210,491	-	210,491
Investment and management fees	-	20,436	20,436	-	20,436
Total expenditures/expenses	2,134,497	20,436	2,154,933	5,269	2,160,202
Revenues					
Investment income	90	238,308	238,398	-	238,398
Contributions	83,219	295,987	379,206	(36,577)	342,629
Book sales	252,731	-	252,731	-	252,731
Transfers in/(out)	1,624,747	(1,624,747)	-	-	-
Total revenues	1,960,787	(1,090,452)	870,335	(36,577)	833,758
Changes in fund balances/net position	(173,710)	(1,110,888)	(1,284,598)	(41,846)	(1,326,444)
Fund balances/net position, beginning of year	430,418	20,682,110	21,112,528	81,965	21,194,493
Fund balances/net position, end of year	\$ 256,708	\$ 19,571,222	\$ 19,827,930	\$ 40,119	\$ 19,868,049
Net change in fund balances of governmental funds					\$ (1,284,598)
Amounts reported for governmental activities in the statement of activities are different because:					
Amortization of intangible assets and other assets are reported as an expense in the statement of activities, whereas these are not recognized in the governmental funds					
					(5,269)
Pledges receivable are not financial resources and therefore are not reported in the funds until year of redemption					
					(36,577)
Change in net position of governmental activities					\$ (1,326,444)

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

Houston Public Library Foundation Governmental Funds Revenues, Expenditures, and Changes in Fund Balances and Statement of Activities

<i>For the year ended June 30, 2015</i>	General Fund	Permanent Fund	Total	Adjustments	Statement of Activities
Expenditures/Expenses					
Programmatic	\$ 1,750,082	\$ -	\$ 1,750,082	\$ 268,237	\$ 2,018,319
Fundraising	21,597	-	21,597	-	21,597
Management and general	246,725	-	246,725	-	246,725
Investment and management fees	-	11,959	11,959	-	11,959
Total expenditures/expenses	2,018,404	11,959	2,030,363	268,237	2,298,600
Revenues					
Investment income	175	584,017	584,192	-	584,192
Contributions	13,724	526,251	539,975	(69,933)	470,042
Book sales	321,835	-	321,835	-	321,835
Transfers in/(out)	1,285,106	(1,285,106)	-	-	-
Total revenues	1,620,840	(174,838)	1,446,002	(69,933)	1,376,069
Changes in fund balances/net position	(397,564)	(186,797)	(584,361)	(338,170)	(922,531)
Fund balances/net position, beginning of year	827,982	20,868,907	21,696,889	420,135	22,117,024
Fund balances/net position, end of year	\$ 430,418	\$ 20,682,110	\$ 21,112,528	\$ 81,965	\$ 21,194,493
Net change in fund balances of governmental funds				\$	(584,361)
Amounts reported for governmental activities in the statement of activities are different because:					
Amortization of intangible assets is reported as an expense in the statement of activities, whereas these are not recognized in the governmental funds					(268,237)
Pledges receivable are not financial resources and therefore are not reported in the funds until the year of redemption					(69,933)
Change in net position of governmental activities				\$	(922,531)

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

Houston Public Library Foundation

Notes to Financial Statements

NOTE 1: ORGANIZATION

Houston Public Library Foundation (the Foundation) is a §501(c)(3) organization which supports and advocates for the Houston Public Library (HPL). A board of community leaders, appointed by the Mayor of the City of Houston (the City), governs the Foundation and its activities. Classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi), the Foundation is a component unit of the City. The operations of the Friends of the Houston Public Library are conducted as a part of the Foundation's activities.

Through advocacy and fundraising, the Foundation supports HPL's wide range of initiatives with particular emphasis on its neighborhood libraries and their community programs. The Foundation provides funding for an annual spending plan and other identified library projects and programs including neighborhood library improvements. In 2016 and 2015, programmatic grants to HPL were \$1,592,316 and \$1,472,842, respectively. Foundation offices are provided by HPL and the City.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements represent all the funds of the Houston Public Library Foundation. The Foundation is a component unit of the City of Houston. Component units are legally separate entities for which the primary government is financially accountable.

Measurement of Focus and Basis of Accounting

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the reporting government as a whole. These statements are prepared on the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Foundation's assets, deferred outflows of resources, liabilities, and deferred inflows of resources are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flow.

Fund Financial Statements

Governmental funds in the fund financial statements are accounted for using a current financial resources measurement focus and have been prepared using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenue is recognized when it is measurable and available. Measurable means the amount of the transaction is known or reasonably estimable and available refers to amounts collected in the current period or expected to be collected soon enough thereafter (60 days) to be used to pay liabilities of the current period. Generally, expenditures are recorded when the related liability is incurred.

Houston Public Library Foundation Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Foundation reports the following major governmental funds:

- The general fund is the Foundation's primary operating fund. It accounts for all financial resources of the Foundation, except those required to be accounted for in another fund.
- The permanent fund is used to account for funds invested for long-term purposes, whether permanently restricted, temporarily restricted or unrestricted.

Net Position

Net position represents the difference between total assets and total liabilities. In the government-wide financial statements, net position is reported as restricted when constraints placed on net position are either externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. All other net position is unrestricted.

Fund Balance Classifications

Fund balances are classified based upon the relative strength of spending constraints placed upon the purposes for which resources can be used as follows:

- Nonspendable fund balance includes amounts that are either not in spendable form or are legally or contractually required to be maintained intact. The Foundation's nonspendable fund balance represents the original corpus of their endowments and is being maintained in perpetuity.
- Restricted fund balance includes amounts constrained to specific purposes either by external resource providers through constitutional provisions or enabling legislation.
- Committed fund balance includes amounts committed to specific purposes by the Foundation itself, using its highest level of decision-making authority. Commitments may be modified only through Board resolution.
- Assigned fund balance includes amounts that the Foundation intends to use for specific purposes, but do not meet the definition of restricted or committed fund balance.
- Unassigned fund balance includes amounts that are available for any purpose.

When both restricted and unrestricted fund balances are available for use, it is the Foundation's policy to use restricted fund balances first, then unrestricted fund balances. Furthermore, committed fund balances are reduced first, followed by assigned fund balances, and then unassigned fund balances when expenditures are incurred for purposes for which amount in any of those unrestricted fund balance classifications can be used.

Investment and Investment Return

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period.

Investment return includes interest, dividends, capital gain distributions and realized and unrealized gains and losses.

Houston Public Library Foundation Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Pledges receivable that are expected to be collected in future years are discounted, if material, to estimate the present value of future cash flows.

Intangible Assets

Intangible assets consisted of software licenses used in the implementation of the WeCan Works project under the direction of HPL. These assets were fully amortized during 2016.

Funds Held for Others

The Foundation holds selected funds for HPL. The Foundation has limited discretion over the use of these funds. Funds held for others are included in the Foundation's cash and investments, and as a liability of the Foundation. Funding by the Foundation of HPL programs and staff benefits is made through deposits to this account. HPL controls disbursements from this fund. As of June 30, 2016 and 2015, the Foundation holds \$446,037 and \$250,994, respectively, of selected funds for HPL.

Contributions

Under both the modified accrual and the accrual basis of accounting, receivables and revenue from contributions are recognized net of estimated uncollectible amounts when all applicable eligibility requirements are met provided the commitment is verifiable and the resources are measurable and probable of collection. Revenue recognized as receivable in advance of the time period during which it may be used is deferred under the modified accrual method of accounting, but is recognized as revenue under the accrual basis of accounting and reflected as restricted net position.

Book sales

Book sales occur at the library branches, at pop-up book sales around the City and on-line via the web through online retailers. Donated books are sold and revenue is recognized at the time of the sale.

Transfers

Transfers between funds represent the transfers of resources for library program expenses.

Income Taxes

The Foundation accounts for uncertain tax positions, when it is more likely than not, that such an asset or a liability will be realized. As of June 30, 2016 and 2015, management believes there were no uncertain tax positions.

Houston Public Library Foundation Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Fair Value Considerations

The Foundation uses fair value to measure financial and certain nonfinancial assets and liabilities. 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. All fair values are determined by external consultants. The fund investments are valued based on the underlying assets in the funds. Equity securities are valued based on the last reported sales price.

Implementation of New GASB Pronouncement

The Foundation has adopted the requirements of GASB Statement No. 72, *Fair Value Measurement and Application*. The statement addresses accounting and financial reporting issues related to fair value measurements (see Note 4).

Comparative financial statements and disclosures of prior years have been adjusted to apply the new requirements retrospectively. There was no effect on previously reported fund balances and net position due to the adoption of this new accounting standard.

Subsequent Events

The Foundation has evaluated subsequent events through the date the financial statements were available for issuance on September 27, 2016. No matters were identified affecting the accompanying financial statements or related disclosures.

NOTE 3: DEPOSITS

Custodial credit risk for deposits with financial institutions is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to it. As of June 30, 2016, the carrying amount of the Foundation's deposits was \$880,013 and the bank balances totaled \$900,680. Deposits totaling \$650,680 were in excess of Federal Deposit Insurance Corporation (FDIC) limits and were uncollateralized. As of June 30, 2015, the carrying amount of the Foundation's deposits was \$689,406 and the bank balances totaled \$767,581. Deposits totaling \$517,581 were in excess of Federal Deposit Insurance Corporation (FDIC) limits and were uncollateralized.

Houston Public Library Foundation Notes to Financial Statements

NOTE 4: INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Foundation categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value three tier hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are as follows:

- Level 1* Quoted market prices in active markets for identical assets or liabilities.
- Level 2* Inputs other than Level 1 inputs that are either directly or indirectly observable such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable; or other inputs not directly observable, but derived principally from, or corroborated by, observable market data.
- Level 3* Unobservable inputs that are supported by little or no market activity.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value:

June 30, 2016	Quoted Market Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Investments			
Vanguard Admiral Shares Funds			
Total stock market index	\$ 9,780,760	\$ -	\$ -
Total bond market index adm	-	2,875,016	-
Inflation protected securities adm	-	2,824,330	-
Total international stock index adm	-	2,573,251	-
Extended market index adm	726,116	-	-
Equity securities	427,123	-	-
Money market	-	234,576	-
Total assets at fair value	\$ 10,933,999	\$ 8,507,173	\$ -

Houston Public Library Foundation Notes to Financial Statements

NOTE 4: INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

June 30, 2015	Quoted Market Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Investments			
Vanguard Admiral Shares Funds			
Total stock market index	\$ 10,433,776	\$ -	\$ -
Total international stock index adm	-	3,086,190	-
Total bond market index adm	-	2,952,475	-
Inflation protected securities adm	-	2,942,516	-
Extended market index adm	836,341	-	-
Equity securities	365,737	-	-
Money market	-	234,670	-
Total assets at fair value	\$ 11,635,854	\$ 9,215,851	\$ -

Based on Vanguard annual reports, Vanguard admiral share funds consist of numerous underlying assets such as equity securities, bonds and temporary cash investments. Equity securities are valued at the latest quoted sales prices or official closing prices taken from the primary market in which each security trades; such securities not traded on the valuation date are valued at the mean of the latest quoted bid and asked prices. Securities for which market quotations are not readily available, or whose values have been materially affected by events occurring before the fund's pricing time but after the close of the securities' primary markets, are valued by methods deemed by the board of trustees to represent fair value. Bonds, and temporary cash investments acquired over 60 days to maturity, are valued using the latest bid prices or using valuations based on a matrix system (which considers such factors as security prices, yields, maturities, and ratings), both as furnished by independent pricing services.

Equity securities are valued based on prices quoted in active market for those securities.

Money market is valued at amortized cost which approximates fair value.

Credit quality ratings are not available for the admiral shares funds or money market.

The Foundation's policy is to maintain a diversified portfolio to minimize the risk of loss resulting from over concentration of assets in a specific investment or maturity.

Investments are exposed to various risks such as interest rate, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of financial position and statement of activities. The Foundation, in accordance with its investment policy, maintains a balanced investment portfolio and distributions are approved by the Board of Directors on an annual basis.



**Houston Public Library Foundation
Notes to Financial Statements**

NOTE 4: INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Investment income consists of the following:

<u>For the years ended June 30,</u>	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 390,846	\$ 417,023
Net realized/unrealized (loss) gain on investments	(152,448)	167,169
Total investment income	\$ 238,398	\$ 584,192