

**Houston Public  
Library Foundation**

**FINANCIAL STATEMENTS**

**June 30, 2017 and 2016**



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June 30, 2017 and 2016**

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## **INDEPENDENT AUDITORS' 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, 2017 and 2016 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.

### **Auditors' 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, 2017 and 2016, 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.

## 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 26, 2017

# 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, 2017 and 2016. This discussion and analysis includes comparative data for the years ended June 30, 2017 and June 30, 2016 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 2017*

- The Foundation made its annual endowment allocation to the Houston Public Library (HPL) in the amount of \$930,000. This grant results from the 25 endowed funds managed by the Foundation. The endowments' spending plan is a formula based upon the rolling average of the preceding 12 quarters.
- Investment income was stronger in fiscal year 2017, and the endowments closed the year just over \$19.8 million.
- As of June 30, 2017, the Foundation held \$18.8 million for HPL programs, including the original \$2.1 million corpus of the Foundation's endowments that is permanently restricted.

### *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 \$17.5 million for HPL programs, including the original \$2.1 million corpus of the Foundation's endowments that is permanently restricted.

## 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>	<b>2017</b>	<b>2016</b>	<b>Increase (Decrease) 2017 - 2016</b>	<b>2015</b>	<b>Increase (Decrease) 2016 - 2015</b>
Cash and investments	\$21,057,619	\$ 20,321,185	\$ 736,434	\$ 21,541,111	\$(1,219,926)
Other assets	1,058,340	40,119	1,018,221	81,965	(41,846)
<b>Total assets</b>	<b>\$22,115,959</b>	<b>\$ 20,361,304</b>	<b>\$ 1,754,655</b>	<b>\$ 21,623,076</b>	<b>\$(1,261,772)</b>
<b>Total liabilities</b>	<b>\$ 378,059</b>	<b>\$ 493,255</b>	<b>\$ (115,196)</b>	<b>\$ 428,583</b>	<b>\$ 64,672</b>
<b>Net position</b>					
Restricted	\$17,838,835	\$ 15,707,444	\$ 2,131,391	\$ 16,547,687	\$ (840,243)
Unrestricted	3,899,065	4,160,605	(261,540)	4,646,806	(486,201)
<b>Total net position</b>	<b>\$21,737,900</b>	<b>\$ 19,868,049</b>	<b>\$ 1,869,851</b>	<b>\$ 21,194,493</b>	<b>\$(1,326,444)</b>

## 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>	<b>2017</b>	<b>2016</b>	<b>Increase (Decrease) 2017 -2016</b>	<b>2015</b>	<b>Increase (Decrease) 2016 -2015</b>
<b>Expenses</b>					
Programmatic	\$ 2,339,740	\$ 1,888,696	\$ 451,044	\$ 2,018,319	\$ (129,623)
Other	403,550	271,506	132,044	280,281	(8,775)
<b>Total expenses</b>	<b>2,743,290</b>	<b>2,160,202</b>	<b>583,088</b>	<b>2,298,600</b>	<b>(138,398)</b>
<b>Revenues</b>					
Investment income	2,274,184	238,398	2,035,786	584,192	(345,794)
Contributions and other income	2,338,957	595,360	1,743,597	791,877	(196,517)
<b>Total revenue</b>	<b>4,613,141</b>	<b>833,758</b>	<b>3,779,383</b>	<b>1,376,069</b>	<b>(542,311)</b>
<b>Changes in net position</b>	<b>1,869,851</b>	<b>(1,326,444)</b>	<b>3,196,295</b>	<b>(922,531)</b>	<b>(403,913)</b>
<b>Net position, beginning of year</b>	<b>19,868,049</b>	<b>21,194,493</b>	<b>(1,326,444)</b>	<b>22,117,024</b>	<b>(922,531)</b>
<b>Net position, end of year</b>	<b>\$21,737,900</b>	<b>\$ 19,868,049</b>	<b>\$ 1,869,851</b>	<b>\$ 21,194,493</b>	<b>\$(1,326,444)</b>

#### ***Fiscal 2017***

The Foundation's investment portfolio reflects gains in the value of certain securities as well dividend income. The overall annual return for the portfolio was 11.4%. The total value of the portfolio at June 30, 2017 was approximately \$19.9 million and represents an increased position over the prior year.

Non-investment revenues related to contributions, special events, and book sales increased significantly from \$595,360 in Fiscal 2016 to \$2,338,957 in Fiscal 2017, which includes \$1,530,420 toward the Barbara Bush Literacy's Plaza capital campaign.

The other assets balance at June 30, 2017, which comprises pledges receivable and prepaids, was approximately \$1,018,000, which represents an increased position over the prior year due to pledges made by donors for the Barbara Bush Literacy's Plaza capital campaign in fiscal year 2017.

# Houston Public Library Foundation Management's Discussion and Analysis

## ***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 intangible assets, was \$40,000, which represents a decreased position over the prior year due to collections.

## ***Governmental Funds***

At June 30, 2017, the Foundation's governmental funds reported combined ending fund balances of approximately \$20.7 million, which is an approximately \$852,000 increase over the prior year. At June 30, 2017, the Foundation's governmental funds were comprised of financial assets raised specifically for Houston Public Library programs and funds raised in prior years that were released for program use. In total, Houston Public Library received a \$930,000 endowment allocation, \$453,203 in program funds raised during the fiscal year, and the release of \$117,843 of funds raised in prior years. The \$1,501,046 total does not include funds specifically raised for the capital improvement project to the Library Plaza, now known as the Barbara Bush Literacy Plaza, of \$1,530,420. HPLF will retain those funds until they are released to the City of Houston for contract execution.

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.

## **FUTURE PROJECTS**

The Fiscal 2018 marks the first year of a three-year growth strategy that focuses on establishing business excellence, increasing awareness and community support, building strong relationships, and raising funds for financial independence and programmatic support. By 2020, the realized goals will lead the Foundation into a strong financial position that not only increases funding for essential library programs but also values strong partnerships within the community. This growth mindset will lead to a culture of philanthropy where everyone involved sees themselves as an essential member contributing to mission delivery.

An indispensable piece of this work is to create top-of-mind recognition in the community from the combined and common purpose of the Foundation, and its component, Friends of HPL. The combined organization exists to benefit the Houston Public Library. Our unified organization builds upon respective strengths while creating operational efficiencies. A new revenue growth project includes opening a volunteer-run retail space in the Central Library where Houstonians can purchase book-related merchandise and specialty gift items. All net proceeds will benefit library programs.





## Houston Public Library Foundation Management's Discussion and Analysis

### ***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, 2017</i>	General Fund	Permanent Fund	Total	Adjustments	Statement of Net Position
<b>Assets</b>					
Cash	\$ 866,536	\$ 313,971	\$ 1,180,507	\$ -	\$ 1,180,507
Investments	3,162	19,873,950	19,877,112	-	19,877,112
Pledges receivable	15,762	1,031,167	1,046,929	-	1,046,929
Other assets	-	-	-	11,411	11,411
<b>Total assets</b>	<b>\$ 885,460</b>	<b>\$ 21,219,088</b>	<b>\$ 22,104,548</b>	<b>\$ 11,411</b>	<b>\$ 22,115,959</b>
<b>Liabilities and fund balances</b>					
<b>Liabilities</b>					
Accrued expenses and grant payable	\$ 19,123	\$ -	\$ 19,123	\$ -	19,123
Funds held for others	358,936	-	358,936	-	358,936
Unearned revenue	15,762	1,031,167	1,046,929	(1,046,929)	-
<b>Total liabilities</b>	<b>393,821</b>	<b>1,031,167</b>	<b>1,424,988</b>	<b>(1,046,929)</b>	<b>378,059</b>
<b>Fund balances</b>					
<b>Nonspendable</b>					
Library programs	-	2,021,039	2,021,039	(2,021,039)	-
Library staff benefits	-	45,000	45,000	(45,000)	-
<b>Restricted for</b>					
Library programs	-	14,258,210	14,258,210	(14,258,210)	-
Library staff benefits	-	456,246	456,246	(456,246)	-
Committed for library programs	-	2,012,932	2,012,932	(2,012,932)	-
Assigned for long-term investment	-	1,394,494	1,394,494	(1,394,494)	-
Unassigned	491,639	-	491,639	(491,639)	-
<b>Total fund balances</b>	<b>491,639</b>	<b>20,187,921</b>	<b>20,679,560</b>	<b>(20,679,560)</b>	<b>-</b>
<b>Total liabilities and fund balances</b>	<b>\$ 885,460</b>	<b>\$ 21,219,088</b>	<b>\$ 22,104,548</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net position</b>					
<b>Restricted for</b>					
Library programs and staff benefits				\$ 15,772,796	\$ 15,772,796
Endowment for library programs and staff benefits				2,066,039	2,066,039
Unrestricted				3,899,065	3,899,065
<b>Total net position</b>				<b>\$ 21,737,900</b>	<b>\$ 21,737,900</b>
<b>Total fund balances of governmental funds</b>					<b>\$ 20,679,560</b>
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					11,411
Pledges receivable are not available for current period expenditures and therefore are deferred in the funds					1,046,929
<b>Net position of governmental activities</b>					<b>\$ 21,737,900</b>

*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, 2016</i>	General Fund	Permanent Fund	Total	Adjustments	Statement of Net Position
<b>Assets</b>					
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
<b>Total assets</b>	<b>\$ 749,962</b>	<b>\$ 19,607,345</b>	<b>\$ 20,357,307</b>	<b>\$ 3,997</b>	<b>\$ 20,361,304</b>
<b>Liabilities and fund balances</b>					
<b>Liabilities</b>					
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)	-
<b>Total liabilities</b>	<b>493,255</b>	<b>36,122</b>	<b>529,377</b>	<b>(36,122)</b>	<b>493,255</b>
<b>Fund balances</b>					
<b>Nonspendable</b>					
Library programs	-	2,021,039	2,021,039	(2,021,039)	-
Library staff benefits	-	45,000	45,000	(45,000)	-
<b>Restricted for</b>					
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)	-
<b>Total fund balances</b>	<b>256,707</b>	<b>19,571,223</b>	<b>19,827,930</b>	<b>(19,827,930)</b>	<b>-</b>
<b>Total liabilities and fund balances</b>	<b>\$ 749,962</b>	<b>\$ 19,607,345</b>	<b>\$ 20,357,307</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net position</b>					
<b>Restricted for</b>					
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
<b>Total net position</b>				<b>\$ 19,868,049</b>	<b>\$ 19,868,049</b>
<b>Total fund balances of governmental funds</b>					<b>\$ 19,827,930</b>
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
<b>Net position of governmental activities</b>					<b>\$ 19,868,049</b>

*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, 2017</i>	General Fund	Permanent Fund	Total	Adjustments	Statement of Activities
<b>Expenditures/Expenses</b>					
Programmatic	\$ 2,347,154	\$ -	\$ 2,347,154	\$ (7,414)	\$ 2,339,740
Fundraising	223,124	-	223,124	-	223,124
Management and general	180,426	-	180,426	-	180,426
<b>Total expenditures/expenses</b>	<b>2,750,704</b>	<b>-</b>	<b>2,750,704</b>	<b>(7,414)</b>	<b>2,743,290</b>
<b>Revenues</b>					
Investment income	3,986	2,270,198	2,274,184	-	2,274,184
Contributions	157,958	944,854	1,102,812	1,010,807	2,113,619
Book sales	225,338	-	225,338	-	225,338
Transfers in/(out)	2,598,353	(2,598,353)	-	-	-
<b>Total revenues</b>	<b>2,985,635</b>	<b>616,699</b>	<b>3,602,334</b>	<b>1,010,807</b>	<b>4,613,141</b>
Changes in fund balances/net position	234,931	616,699	851,630	1,018,221	1,869,851
Fund balances/net position, beginning of year	256,708	19,571,222	19,827,930	40,119	19,868,049
Fund balances/net position, end of year	\$ 491,639	\$ 20,187,921	\$ 20,679,560	\$ 1,058,340	\$ 21,737,900
Net change in fund balances of governmental funds					\$ 851,630
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					7,414
Pledges receivable are not financial resources and therefore are not reported in the funds until year of redemption					1,010,807
Change in net position of governmental activities					\$ 1,869,851

*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
<b>Expenditures/Expenses</b>					
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
<b>Total expenditures/expenses</b>	<b>2,134,497</b>	<b>20,436</b>	<b>2,154,933</b>	<b>5,269</b>	<b>2,160,202</b>
<b>Revenues</b>					
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)	-	-	-
<b>Total revenues</b>	<b>1,960,787</b>	<b>(1,090,452)</b>	<b>870,335</b>	<b>(36,577)</b>	<b>833,758</b>
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

## 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 2017 and 2016, programmatic grants to HPL were \$1,609,142 and \$1,592,316, 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. Assignment may be modified only through Board resolution.
- 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.

#### ***Budgetary Comparisons***

Under GASBS No. 34, budgetary comparison information is required to be presented for the general fund and each major special revenue fund with a legally adopted budget. The Foundation is not legally required to adopt a budget for the general fund. Therefore, budget comparison information is not included in the Foundation's financial statements.

## Houston Public Library Foundation Notes to Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### ***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.

#### ***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. Pledges receivable are considered to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If amounts become uncollectible, they will be charged to operations when the determination is made.

#### ***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, 2017 and 2016, the Foundation holds \$358,936 and \$446,037, 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, 2017 and 2016, 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.

### 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, 2017, the carrying amount of the Foundation's deposits was \$1,180,507 and the bank balances totaled \$1,182,781. Deposits totaling \$932,781 were in excess of Federal Deposit Insurance Corporation (FDIC) limits and were uncollateralized. 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.

Subsequent to year end, the Foundation entered into a depository pledge agreement with Cadence Bank, in which deposits exceeding the FDIC limits will be secured by pledge collaterals.

### 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.

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

**NOTE 4: INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)**

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

June 30, 2017	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	\$ 10,564,609	\$ -	\$ -
Total bond market index adm	-	2,610,076	-
Inflation protected securities adm	-	2,554,603	-
Total international stock index adm	-	2,816,953	-
Extended market index adm	804,851	-	-
Equity securities	350,357	-	-
Money market	-	175,663	-
<b>Total assets at fair value</b>	<b>\$ 11,719,817</b>	<b>\$ 8,157,295</b>	<b>\$ -</b>

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 international stock index adm	-	2,875,016	-
Total bond market index adm	-	2,824,330	-
Inflation protected securities adm	-	2,573,251	-
Extended market index adm	726,116	-	-
Equity securities	427,123	-	-
Money market	-	234,576	-
<b>Total assets at fair value</b>	<b>\$ 10,933,999</b>	<b>\$ 8,507,173</b>	<b>\$ -</b>

## Houston Public Library Foundation Notes to Financial Statements

### NOTE 4: INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

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.

Investment income consists of the following:

For the years ended June 30,	2017	2016
Interest and dividend income	\$ 467,596	\$ 390,846
Net realized/unrealized gain (loss) on investments	1,806,588	(152,448)
<b>Total investment income</b>	<b>\$ 2,274,184</b>	<b>\$ 238,398</b>