Clayton Library Friends

Financial Statements for the Year Ended December 31, 2018
(with comparative totals for 2017)

Bennoch & Tipton LLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Clayton Library Friends
Houston, Texas

We have audited the accompanying financial statements of Clayton Library Friends (a nonprofit organization) which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses and cash flows for the year 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 Clayton Library Friends as of December 31, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information
We have previously audited the Clayton Library Friends' 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 10, 2018. In our

opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bennoch & Tipton LLC

Bennoch & Tipton LLC
Certified Public Accountants
Houston, Texas

June 18, 2019

Clayton Library Friends

Statement of Financial Position

As December 31, *(with comparative totals for 2017)*		2018		2017
Assets				
Cash and cash equivalents	$	85,419	$	137,719
Prepaid expenses		-		1,004
Restricted investments		1,167,722		1,216,628
Property and equipment, net		7,967		14,605
Total Assets	$	1,261,108	$	1,369,956
Liabilities and Net Assets				
Liabilities				
Accrued expenses	$	-	$	658
Total Liabilities		-		658
Net Assets				
Without donor restrictions		69,009		128,896
With donor restrictions		1,192,099		1,240,402
Total Net Assets		1,261,108		1,369,298
Total Liabilities and Net Assets	$	1,261,108	$	1,369,956

Clayton Library Friends

Statement of Activities

Years ended December 31, *(with comparative totals for 2017)*	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
Operating Activities:				
Revenue and Support:				
Contributions	$ 15,980	$ 6,293	$ 22,273	$ 27,304
Membership dues	5,904	-	5,904	7,770
Net assets released from restrictions	5,690	(5,690)	-	-
Total Revenue and Support	27,574	603	28,177	35,074
Expenses:				
Program Services:				
Library enrichment	74,167	-	74,167	56,263
Member benefits	11,055	-	11,055	13,325
Total Program Services	85,222	-	85,222	69,588
Supporting Services:				
General and administrative	2,239	-	2,239	2,367
Fundraising	-	-	-	-
Total Supporting Services	2,239	-	2,239	2,367
Total Expenses	87,461	-	87,461	71,955
Change in Net Assets from Operating Activities	(59,887)	603	(59,284)	(36,881)
Nonoperating Activitities:				
Investment income/(loss), net	-	(48,906)	(48,906)	86,266
Change in Net Assets	(59,887)	(48,303)	(108,190)	49,385
Net Assets, Beginning of Year	128,896	1,240,402	1,369,298	1,319,913
Net Assets, End of Year	$ 69,009	$ 1,192,099	$ 1,261,108	$ 1,369,298

Year ended December 31, (with comparative totals for 2017)	Program Services: Library Enrichment	Program Services: Member Benefits	Program Services: Total Program Services	Supporting Services: General and Administrative	Supporting Services: Fundraising	Supporting Services: Total Supporting Services	2018 Total	2017 Total
Expenses								
Accounting	$ 6,397	$ 4,264	$ 10,661	$ 1,184	$ -	$ 1,184	$ 11,845	$ 12,011
Book acquisitions	59,222	-	59,222	-	-	-	59,222	42,192
Bank fees	63	87	150	17	-	17	167	50
Depreciation	2,987	2,987	5,974	664	-	664	6,638	6,638
Development	4,359	-	4,359	-	-	-	4,359	3,097
Directors' insurance premiums	-	1,333	1,333	148	-	148	1,481	1,504
Miscellaneous	-	435	435	29	-	29	464	626
Printing and postage	-	857	857	62	-	62	919	879
Promotion	1,139	-	1,139	127	-	127	1,266	2,405
Supplies	-	68	68	8	-	8	76	183
Website	-	1,024	1,024	-	-	-	1,024	2,370
Total Expenses	$ 74,167	$ 11,055	$ 85,222	$ 2,239	$ -	$ 2,239	$ 87,461	$ 71,955

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

Clayton Library Friends

Statement of Cash Flows

Years Ended December 31, *(with comparative totals for 2017)*		2018		2017
Cash Flows From Operating Activities				
Change in net assets	$	(108,190)	$	49,385
Adjustments to reconcile change in net assets to net cash used in operating activities:				
Depreciation		6,638		6,638
Realized and unrealized loss/(gain) on investments		80,880		(54,380)
Changes in assets and liabilities:				
Prepaid expenses		1,004		1,004
Accrued expenses		(658)		658
Total Adjustments		87,864		(46,080)
Net Change in Operating Activities		(20,326)		3,305
Cash Flows From Investing Activities				
Purchase of investment		-		(1,097)
Dividends reinvested, net of investment expenses		(31,974)		(31,886)
Net Change in Investing Activities		(31,974)		(32,983)
Net Change in Cash and Cash Equivalents		(52,300)		(29,678)
Cash and Cash Equivalents, Beginning of Year		137,719		167,397
Cash and Cash Equivalents, End of Year	$	85,419	$	137,719

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

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Business – Clayton Library Friends (the "Organization"), a Texas nonprofit organization, was founded in 1987. The mission of Clayton Library Friends is to enrich the resources and facilities of Clayton Library Center for Genealogical Research, a unit of the Houston Public Library. In the pursuit of that mission, the officers and directors of the organization, in coordination with the manager of the Clayton Library, organize and direct fundraising projects to support the acquisition of research material for the library, to upgrade library facilities, and to enhance library services. Since Clayton is primarily a family history and genealogical research center, an important part of the Clayton Library Friends' mission is the organization of programs that encourage family history research, provide specialized volunteer services for the library, and educate the public in the use of Clayton Library and its collection.

The Organization is supported through contributions received from individuals, foundations, trusts and corporate institutions.

Basis of Presentation **–** The financial statements of the Organization are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). (ASC) 958-205 was effective January 1, 2018.

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

- 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 Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

- 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 Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

In addition, the Organization is required by FASB ASC 958-205-45-4 to present a statement of cash flows.

Revenue Recognition – Generally, grants are recognized as revenues when earned. Grants that operate on a reimbursement basis are recognized on the accrual basis as revenues only to the extent of disbursements and commitments that are allowable for reimbursement. Revenues from contributions, donations and other sources are recognized as without donor restrictions

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. The significant estimates included in the financial statements are the estimates of useful lives used for depreciating property and equipment items.

Contributions – Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets are placed in service.

Cash and Cash Equivalents – The Organization considers all monies in banks and highly liquid investments with maturities of three months or less from the date of purchase to be cash and cash equivalents. The carrying values of any cash and cash equivalents are deemed to approximate their fair values because of the short maturities of those financial instruments.

Investments – Net appreciation (depreciation) in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments, is presented in the statement of activities in accordance with donor restrictions as investment return. Investment return is presented net of investment fees. The average cost method is primarily used to determine the basis for computing realized gains or losses.

Promises to Give– The Organization uses the allowance method to determine uncollectible grant and promise to give receivables. The allowance is based on management’s analysis of specific promises made. The Organization considers all grant and promise to give receivables to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Property and Equipment – The Organization capitalizes all expenditures for property, plant and equipment in excess of $500. Maintenance and repairs are charged to operations when incurred. Major improvements and renewals that extend the life of the asset are capitalized. Purchased property, plant and equipment are carried at cost and are depreciated using the straight-line method based on their estimated useful lives as follows:

Office equipment	5 years

Functional Allocation of Expenses – Expenses are categorized in the Statement of Activities as program services, management and general, and fundraising. The Organization’s expenses are allocated on a functional basis among these benefited categories:

- Program service expenses: include direct and indirect (allocated) expenses for the various programs offered by the Organization. Expenses that can be identified with a specific program and support services are allocated directly according to their natural expenditure classification. Other expenses, that are common to several functions, are allocated to program services by various reasonable bases such as a percentage based on salaries and wages.

- Management and general expenses: include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

- Fundraising expenses: represent cost incurred in connection with fundraising efforts.

Advertising Cost – Advertising costs are expensed when incurred. Advertising costs for the year ended December 31, 2018 and 2017 amounted to $1,266 and $2,405, respectively.

Income Taxes – The Organization is operating as a not-for-profit corporation, under Section 501(c)(3) of the Internal Revenue Code, and is not subject to income taxes with the exception of unrelated business income. The Organization had no unrelated business income for the year ended December 31, 2018 and 2017.

The Organization applies the provisions of FASB ASC Topic 740, Income Taxes, (formerly FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109), which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. As of December 31, 2018 and 2017, no uncertain tax positions were identified.

Contributed Services – The Organization recognizes contributed services at their fair value if the services provide value to the Organization and require specialized skills, are provided by individuals possessing those skills, and would have been purchased if not provided by contributors, as established by FASB ASC 958-605-25-26.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization with program services and fundraising events. No amounts have been reflected in the financial statements for these donated services since the volunteers' time does not meet the criteria for recognition under ASC 958-605, *Revenue Recognition*.

Fair Value of financial instruments – ASC 820, *Fair Value Measurements and Disclosures* (formerly SFAS 157), defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market, establishes a framework for measuring fair value in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

The valuation techniques required by ASC 820 are based upon observable and unobservable inputs, and ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

- Level I - Quoted prices in active markets for identical assets or liabilities. An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level I assets include cash, cash equivalents and investments with a fair value at December 31, 2018 and 2017 of $1,253,141 and $1,354,347, respectively.

- Level 2 - Inputs other than quoted prices included in Level l, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities that are not active; or other inputs that are observable or can be corroborated by observable market data.

- Level 3 - Significant unobservable inputs that are supported by little or no market activity.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used are to maximize the use of observable inputs and minimize the use of unobservable inputs

NOTE 2 – PROGRAMS AND SUPPORTING SERVICES

The costs of providing the various programs and other activities are shown in the accompanying statement of functional expenses. The following programs and supporting services are included in the accompanying financial statements:

Library Enrichment: Clayton Library Friends acquires genealogy and history related books as requested by the Clayton Library staff. Other acquired materials might include rolls of microfilm and periodical subscriptions from various genealogical societies and historical societies. Reimbursement for travel and lodging expenses incurred when attending genealogy conferences is occasionally provided to Clayton Library staff.

Member Benefits: Membership benefits include a quarterly newsletter and quarterly meetings which typically include invited speakers. An online site allows for member profile updates, payment of dues and donations. Association with fellow family researchers and genealogists having all levels of experience and expertise is of an undetermined value; the benefit of which is up to individual members, their ability and how they choose to interact or participate.

NOTE 3 – CONCENTRATION OF CREDIT RISKS

Financial instruments that potentially subject the Organization to credit risk consist primarily of cash and investments. All of a depositor's accounts at an insured depository institution, including all noninterest-bearing transaction accounts, will be insured by the Federal Deposit Insurance Corporation (FDIC) up to the standard maximum deposit insurance amount ($250,000), for each deposit insurance ownership category. Additionally, cash and securities held by a customer at a Security Investor Protection Corporation (SIPC) member brokerage firm are protected up to $500,000 which includes a $250,000 limit for cash.

The Organization maintains its cash balances in a local bank. These balances are insured by the FDIC up to $250,00. At December 31, 2018 and 2017, the Organization did not have any cash balances that were not covered by FDIC insurance.

The Organization's investments amount to $1,167,722 and $1,216,628 at December 31, 2018 and 2017, respectively, and consist of common stocks, mutual funds and bonds which are held at a brokerage firm. Investments in excess of the SIPC limit amounted to $677,722 and $716,628 at December 31, 2018 and 2017, respectively. Additionally, these investments are exposed to several risks, such as interest rates, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Organization’s financial statements.

NOTE 4 – INVESTMENTS

Cost and fair value of investments at December 31, 2018 and 2017 were as follows:

	Cost	Gross Unrealized Gains/(Losses)	2018 Fair Value	2017 Fair Value
Cash held for long-term investment	$26,611	$ -	$26,611	$19,060
Equities	527,630	(36,987)	490,643	532,918
Fixed income	699,504	(49,036)	650,468	664,650
Totals	$1,253,745	$(86,023)	$1,167,722	$1,216,628

The fair value of all investments have been measured on a recurring basis using Level 1 inputs. There were no changes in valuation methodologies and related inputs used at December 31, 2018.

The following schedule summarizes the investment return and its classification recording in the Statement of Activities for the years ended December 31, 2018 and 2017:

	Without donor restrictions	With donor restrictions	2018 Total	2017 Total
Interest and dividend income	$ -	$44,288	$44,288	$43,544
Realized and unrealized gains/(losses)	-	(80,880)	(80,880)	54,380
Investment fees	-	(12,314)	(12,314)	(11,658)
Totals	$ -	$(48,906)	$(48,906)	$86,266

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

As of December 31, 2018 and 2017, property, plant and equipment consisted of the following:

	2018	2017
Building and improvements	$33,191	$33,191
Less: Accumulated depreciation	(25,224)	(18,586)
Total Property and Equipment	$7,967	$14,605

Depreciation expense charged to operations for the year ended December 31, 2018 and 2017 was $6,638 and $6,638, respectively.

NOTE 6 – NET ASSETS – WITH DONOR RESTRICTIONS

Donor restricted net assets are restricted for the following purposes as of December 31, 2018 and 2017:

	2018	2017
Subject to expenditure for specified purpose:		
Library enrichment activities:		
Acquisitions and processing	$11,126	$11,336
Memorials	6,498	5,338
CLF administration	5,823	5,823
Angel program	930	1,277
Total subject to expenditure for specified purpose	$24,377	$23,774
Subject to Organization’s spending policy and appropriation:		
Investment in perpetuity:		
Support programs that benefit Clayton Library Center for Genealogical Research	1,167,722	1,216,628
Total subject to Organization’s spending policy and appropriation	1,167,722	1,216,628
Total net assets with donor restrictions	$1,192,099	$1,240,402

Releases from donor restricted net assets for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Subject to expenditure for library enrichment	$5,690	$7,132
Total releases from donor restriction	$5,690	$7,132

Endowment net assets with donor restrictions:

	2018	2017
Original donor-restricted endowment gift amounts and amounts required to be retained by donor	$828,004	$828,004
Accumulated investment gains on endowment funds:		
With donor restrictions	339,718	388,624
Total endowment funds classified as net assets with donor restrictions	$1,167,722	$1,216,628

NOTE 7 – NET ASSETS – CLF ENDOWMENT FUND

The invested funds of the Clayton Library Friends Endowment Fund, hereinafter referred to as the “Fund,” is an investment portfolio of monies contributed by members and supporters of the Organization. The primary objective of the Fund shall be to preserve capital and produce current income. A secondary objective shall be to grow the Fund through appreciation of the Fund’s assets. The Fund is held as an asset under the authority of the Organization’s Executive Board (board of directors), hereinafter referred to as the “Board,” for the primary purpose of providing realized investment income to support the Organizations programs that directly benefit the Clayton Library Center for Genealogical Research, a component of the Houston Public Library. Since the Fund’s primary objective is to preserve capital and produce realized investment income, it is the understanding of the Board that the long-term total return may be lower than that from a portfolio that is more heavily weighted in equity securities. As required by GAAP, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – The Organization is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Executive Board appropriates such amounts for expenditure. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Executive Board has interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

Additionally, in accordance with SPMIFA, the Organization 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 Organization 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 resources of the Organization; and
7. The investment policies of the Organization.

Clayton Library Friends Endowment Fund net assets composition by type of fund as of December 31, 2018 and 2017:

	Without Donor Restrictions	With Donor Restrictions	Total 2018	Total 2017
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$ -	$828,004	$828,004	$828,004
Accumulated investment gains	-	339,718	339,718	388,624
Total	$ -	$1,167,722	$1,167,722	$1,216,628

Changes in Clayton Library Friends Endowment Fund net assets for the years ended December 31, 2018 and 2017:

	Without Donor Restrictions	With Donor Restrictions	Total 2018	Total 2017
Endowment net assets, beginning of year	$ -	$1,216,628	$1,216,628	$1,129,265
Investment return, net	-	(48,906)	(48,906)	86,266
Contributions	-	-	-	1,097
Total	$ -	$1,167,722	$1,167,722	$1,216,628

Return Objectives and Risk Parameters – The Organization has adopted investment and spending policies for the Fund's assets. The primary objective is to preserve capital and produce current income. The secondary objective is to grow the Fund's assets through appreciation. The Fund's assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s), Under the Clayton Library Friends Endowment Fund Investment Policy Statement (the "Investment Policy"), approved by the Executive Board on July 17, 2007, the return objectives are as follows:

A. Rate-of-Return Objectives: The fixed income portion of the Fund is expected to achieve, over the measured period as defined in paragraph B, stated below, a Rate of Return that exceeds the combined average of the Barclay's Capital U.S. 1–3 Year Treasury Bond Index and the Barclay's Capital U.S. Aggregate Bond Index. The equities portion of the Fund is expected to achieve, over the same measured period, a Rate of Return that exceeds the Standard and Poor's 500 Index. Total Rate of Return` is defined as all interest and all realized and unrealized gains and losses, net of all investment related expenses, including the investment manager's retainer.

B. Measured Period: For purposes of measuring a rate of return, the performance of the Fund shall be measured over a rolling three-year period.

C. Fiduciary Standards: The assets of the Fund are to be invested and managed in accordance with generally accepted standards of fiduciary responsibility. The safeguards that would guide a prudent investment manager are to be strictly observed. All transactions utilizing assets of the Fund are to be undertaken for the sole benefit of the Fund and of the Organization.

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, the Organization 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 Organization targets a diversified asset allocation as specified below in order to meet its primary objective of preserving capital and preserving current income. The Organization's target allocations, as specified in the Investment Policy, are as follows:

A. Fixed-Income: Assets of the Fund's fixed-income portfolio shall be no less than 50% nor more than 70% of the Fund's total value, with a target allocation of 60%.

   I. Permissible Fixed-Income Investments: Assets of the Fund's fixed-income portfolio may be invested only in cash equivalents or fixed income securities as follows:

   - Treasury bills,
   - Money market funds,
   - Certificates of deposit,
   - U.S. Government and agency securities,
   - Corporate notes and bonds,
   - Mortgage backed bonds,
   - U.S. dollar-denominated Eurobonds and Yankee bonds.

   II. Fixed Income Portfolio Characteristics: The assets of the Fund's fixed income portfolio shall, as a group:

   - Have a weighted average maturity as measured by their market value of between two and ten years;
   - Have a maximum maturity of any individual issue of not more than twenty years;
   - Have a weighted average portfolio quality as measured by market value of "A" or better as rated by Standard and Poor's;
   - Have no fixed income security rated at less than "BBB" grade by Standard & Poor's;
   - Maintain adequate diversification by issuer and sector, except that this requirement shall not apply to instruments of the United States government or agencies thereof, which may be held in any amounts within this component of the Fund.

B. Equities: Assets of the Fund's equities portfolio shall be no less than 30% nor more than 50% of the Fund's total value, with a target allocation of 40%. The Fund's equity portfolio may include U.S. domestic and non-U.S. securities with emphasis on stocks that the investment manager believes to be quality issues characterized by relatively low volatility.

   The following restrictions apply:

   - Equity holdings in any one corporation shall not exceed 5% of the total equity portfolio, with the exception that gifted securities may exceed 5% of the equity portfolio until such time as the Board directs a re-balancing of the equity portfolio.

- The equity investment in any single company shall not exceed 1% of the company's outstanding equity.
- The equity investment in non-U.S. securities shall not exceed 10% of the Fund's equity portfolio.

The Endowment's Spending Policy and How the Investment Objectives Relate to Spending Policy – The Organization's policy for distribution of earnings from the Endowment Fund investment account is as follows:

- All gifts made to the Endowment Fund are to be held in perpetuity, and the original value of the gifts, at the time they were made, is to be preserved.
- The earnings from the investment of the Endowment Fund are available for distribution.
- Distributions are identified and approved by the Executive Board within the restriction parameters specified by the donors and in accordance with the Endowment Fund's guidelines at time of its establishment. Specifically, distributions are "limited to material acquisitions and/or capital purchases for interior equipment for Clayton Library; no funds may be used for exterior maintenance or exterior capital purchases, nor may funds be appropriated or designated for the selection or enhancement of personnel." (ref. April 1989 CLF Newsletter)
- Earnings not distributed are to be reinvested; however, they remain available for distribution if needed. Reinvestments are not automatically required to be held in perpetuity.
- In general, the Executive Board will strive to maintain a balance between its primary Endowment Fund objective of preserving the capital and producing current income and its secondary objective of Fund growth by reinvesting approximately half the earnings of the Investment Account annually, maintaining a buffer in the Fund against Market downturns which might decrease the value of the Fund.
- The Executive Board may, at its discretion choose to reinvest and distribute greater or lesser amounts, depending upon the needs of the Library and upon general economic conditions.

NOTE 8 – LIQUIDITY

The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed regulation within one year of the statement of financial position date.

	2018	2017
Financial assets, year end	$1,253,141	$1,354,347
Less those unavailable for general expenditures		
within one year, due to:		
Restricted by donor with time or purpose restrictions	(24,377)	(23,774)
Subject to appropriation and satisfaction of donor restrictions	(1,167,722)	(1,216,628)
	$61,040	$113,945

The Organization’s financial assets have been reduced by amounts not available for general use because of donor imposed restrictions within one year of the balance sheet date and amounts set aside for long-term investing in the endowment.

Clayton Library Friends, Inc. is primarily funded by membership fees, unrestricted contributions from donors and restricted contributions from donors. Those restrictions require that funds be used in a certain manner or in a future period. Clayton Library Friends, Inc must maintain adequate resources to meet those responsibilities to its donors and to this end, certain financial assets are found within the Clayton Library Friends, Inc. Endowment Fund as Temporarily Restricted Assets. These assets are available to meet donor-imposed restrictions over an indefinite multi-year period. As part of its liquidity management, Clayton Library Friends, Inc. structures its financial assets to be available as general expenditures, liabilities and other obligations become due. A liquidity cash reserve of $30,000 is set aside.

NOTE 9 – RECLASSIFICATION OF NET ASSETS

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

During 2018, the Organization noted that net assets with donor restrictions were overstated by $75,294 on the December 31, 2017 financial statements. Accordingly, net assets with donor restrictions at December 31, 2017 were decreased by $75,924 and net assets without donor restrictions were increased by $75,294. There was no effect on the current year’s financial statements as a result of the reclassification.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 18, 2019; the date the financial statements were available to be issued. Management is not aware of any material subsequent events which would require recognition or disclosure in the accompanying financial statements.