

Clayton Library Friends

Independent Auditors' Report and
Financial Statements for the Year Ended December 31, 2019
(with comparative totals for 2018)



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INDEPENDENT AUDITORS' REPORT

To the Executive Board
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, 2019, 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, 2019, 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 Clayton Library Friends' 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 18, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Tipton & Company

Tipton and Company
Certified Public Accountants
Houston, Texas

October 7, 2020

Clayton Library Friends

Statement of Financial Position

| <i>As of December 31, (with comparative totals for 2018)</i> | 2019 | 2018 |
|--|---------------------|---------------------|
| Assets | | |
| Cash and cash equivalents | \$ 120,777 | \$ 85,419 |
| Restricted investments | 1,207,589 | 1,167,722 |
| Property and equipment, net | 1,359 | 7,967 |
| Total Assets | \$ 1,329,725 | \$ 1,261,108 |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable | \$ - | \$ - |
| Total Liabilities | - | - |
| Net Assets | | |
| Without donor restrictions | 40,515 | 69,009 |
| With donor restrictions | 1,289,210 | 1,192,099 |
| Total Net Assets | 1,329,725 | 1,261,108 |
| Total Liabilities and Net Assets | \$ 1,329,725 | \$ 1,261,108 |

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

Clayton Library Friends

Statement of Activities

| <i>Year Ended December 31, (with comparative totals for 2018)</i> | Without Donor Restrictions | With Donor Restrictions | 2019 Total | 2018 Total |
|---|-------------------------------|----------------------------|-----------------------|---------------------|
| Operating Activities: | | | | |
| Revenue and Support: | | | | |
| Contributions | \$ 27,663 | \$ 3,391 | \$ 31,054 | \$ 22,273 |
| Membership dues | 5,060 | - | 5,060 | 5,904 |
| Other income | 5,039 | - | 5,039 | - |
| Net assets released from restrictions | 46,147 | (46,147) | - | - |
| Total Revenue and Support | 83,909 | (42,756) | 41,153 | 28,177 |
| Expenses: | | | | |
| Program Services: | | | | |
| Library enrichment | 88,353 | - | 88,353 | 74,167 |
| Member benefits | 6,353 | - | 6,353 | 11,055 |
| Total Program Services | 94,706 | - | 94,706 | 85,222 |
| Supporting Services: | | | | |
| Management and general | 17,697 | - | 17,697 | 2,239 |
| Fundraising | - | - | - | - |
| Total Supporting Services | 17,697 | - | 17,697 | 2,239 |
| Total Expenses | 112,403 | - | 112,403 | 87,461 |
| Change in Net Assets from Operating Activities | (28,494) | (42,756) | (71,250) | (59,284) |
| Nonoperating Activities: | | | | |
| Investment income/(loss), net | - | 139,867 | 139,867 | (48,906) |
| Change in Net Assets from Nonoperating Activities | - | 139,867 | 139,867 | (48,906) |
| Change in Net Assets | (28,494) | 97,111 | 68,617 | (108,190) |
| Net Assets, Beginning of Year | 69,009 | 1,192,099 | 1,261,108 | 1,369,298 |
| Net Assets, End of Year | \$ 40,515 | \$ 1,289,210 | \$ 1,329,725 | \$ 1,261,108 |

Clayton Library Friends

Statement of Functional Expenses

| Year Ended December 31, <i>(with comparative totals for 2018)</i> | Program Services | | | Supporting Services | | | 2019 Total | 2018 Total |
|---|-----------------------|--------------------|------------------------------|---------------------------|-------------|---------------------------------|-----------------------------|---------------|
| | Library Enrichment | Member Benefits | Total Program Services | Management and General | Fundraising | Total Supporting Services | | |
| Expenses | | | | | | | | |
| Accounting | \$ - | \$ - | \$ - | \$ 12,163 | \$ - | \$ 12,163 | \$ 12,163 | \$ 11,845 |
| Bank fees | - | - | - | 89 | - | 89 | 89 | 167 |
| Depreciation | 3,304 | 3,304 | 6,608 | - | - | - | 6,608 | 6,638 |
| Development | 3,711 | - | 3,711 | - | - | - | 3,711 | 4,359 |
| Directors' insurance premiums | - | - | - | 3,687 | - | 3,687 | 3,687 | 1,481 |
| Donations to Clayton Library - books | 39,756 | - | 39,756 | - | - | - | 39,756 | 59,222 |
| Donations to Clayton Library - renovation | 40,400 | - | 40,400 | - | - | - | 40,400 | - |
| Miscellaneous | - | 256 | 256 | 1,261 | - | 1,261 | 1,517 | 464 |
| Printing and postage | - | 439 | 439 | 373 | - | 373 | 812 | 919 |
| Promotion | 1,182 | 1,182 | 2,364 | - | - | - | 2,364 | 1,266 |
| Supplies | - | - | - | 124 | - | 124 | 124 | 76 |
| Website | - | 1,172 | 1,172 | - | - | - | 1,172 | 1,024 |
| Total Expenses | \$ 88,353 | \$ 6,353 | \$ 94,706 | \$ 17,697 | \$ - | \$ 17,697 | \$ 112,403 | \$ 87,461 |

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

Clayton Library Friends

Statement of Cash Flows

| <i>Year Ended December 31, (with comparative totals for 2018)</i> | 2019 | 2018 |
|--|-------------------|------------------|
| Cash Flows From Operating Activities | | |
| Change in net assets | \$ 68,617 | \$ (108,190) |
| Adjustments to reconcile change in net assets to net change in cash from operating activities: | | |
| Depreciation | 6,608 | 6,638 |
| Realized and unrealized loss/(gain) on investments | (107,077) | 80,880 |
| Changes in assets and liabilities: | | |
| Prepaid expenses | - | 1,004 |
| Accrued expenses | - | (658) |
| Total Adjustments | (100,469) | 87,864 |
| Net Change from Operating Activities | (31,852) | (20,326) |
| Cash Flows From Investing Activities | | |
| Interest and dividends reinvested | (44,535) | (44,288) |
| Sale of investments | 100,000 | - |
| Investment fees | 11,745 | 12,314 |
| Net Change from Investing Activities | 67,210 | (31,974) |
| Net Change in Cash and Cash Equivalents | 35,358 | (52,300) |
| Cash and Cash Equivalents, Beginning of Year | 85,419 | 137,719 |
| Cash and Cash Equivalents, End of Year | \$ 120,777 | \$ 85,419 |

Clayton Library Friends

Notes to Financial Statements

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Clayton Library Friends (the "Organization"), a Texas nonprofit organization, was founded in 1987. The mission of the Organization 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 Organization's 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.

The Organization conducts the following programs:

Library Enrichment: The Organization 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.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net assets with donor restrictions are resources that are subject to donor-imposed restrictions. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature; such as those that are restricted by a donor that the resources be maintained in perpetuity.

The Organization's unspent contributions are reported in net assets with donor restrictions if the donor limited their

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Notes to Financial Statements

use, as are promised contributions that are not yet due. Contributions of property and equipment or cash restricted to acquisition of property and equipment are reported as net assets with donor restrictions if the donor has restricted the use of the property or equipment to a particular program. These restrictions expire when the assets are placed in service.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly-liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Promises to Give

Conditional promises to give are not recognized in the financial statements until the conditions are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. In the absence of donor stipulations to the contrary, promises with payments due in future periods are restricted to use after the due date. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payment is merely postponed.

Property and Equipment

Property and equipment are stated at cost or fair value at date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

| | |
|------------------|---------|
| Office equipment | 5 years |
|------------------|---------|

Additions and betterments of \$500 or more are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is noted. If the carrying amount for the asset is not recoverable, the value is written down to the asset's fair value.

Revenue Recognition

Revenue and Revenue Recognition

Contributions are recognized when cash, or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met or the donor has explicitly released the restriction.

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Notes to Financial Statements

Revenue with and without Donor Restrictions

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. Contributions of property and equipment are reported as net assets with donor restrictions if the donor restricted the use of the property or equipment to a particular program, as are contributions of cash restricted to the purchase of property and equipment. Otherwise, donor restrictions on contributions of property and equipment or assets restricted for purchase of property and equipment are considered to expire when the assets are placed in service. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, 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.

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.

Donated Assets

Donated investments and other noncash donations are recorded as contributions at their fair values at the date of donation

Income Taxes

The Organization is a nonprofit corporation that is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code ("Code") and comparable State law, and contributions to it are tax deductible within the limitations prescribed by the Code. The Organization did not conduct any unrelated business activities in the current fiscal year. Therefore, the Organization has made no provision for federal income taxes in the accompanying financial statements.

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. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Investments and Fair Value of Financial Instruments

Accounting principles generally accepted in the United States of America establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

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The three levels of the fair value hierarchy are described below:

- (i) Level 1—Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
- (ii) Level 2—Inputs to the valuation methodology include:
 - quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets or liabilities in inactive markets;
 - inputs other than quoted prices that are observable for the asset or liability;
 - inputs that are derived principally from or corroborated by observable market data by correlation or by other means.
- (iii) Level 3—Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset 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 need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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.

Advertising

Advertising costs are expensed as incurred. Advertising expenses for the year ended December 31, 2019 and 2018 were \$2,364 and \$1,266, respectively.

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2018, from which the summarized information was derived.

Functional Allocation of Expense

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities. The Statement of Functional Expenses presents the natural classification of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of time and effort. 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.

NOTE 2 – 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

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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, 2019 and 2018, the Organization did not have any cash balances that were not covered by FDIC insurance.

The Organization's investments amount to \$1,207,589 and \$1,167,722 at December 31, 2019 and 2018, 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 \$707,589 and \$677,722 at December 31, 2019 and 2018, 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 3 – PROPERTY AND EQUIPMENT

As of December 31, 2019 and 2018, property and equipment consisted of the following:

| | 2019 | 2018 |
|-----------------------------------|----------|----------|
| Office equipment | \$33,191 | \$33,191 |
| Subtotal property and equipment | 33,191 | 33,191 |
| Less: accumulated depreciation | (31,832) | (25,224) |
| Total property and equipment, net | \$1,359 | \$7,967 |

Depreciation expense charged to operations for the year ended December 31, 2019 and 2018 was \$6,608 and \$6,638, respectively.

NOTE 4 - INVESTMENTS

Investments are stated at fair value and consist of the following at December 31, 2019:

| | Level 1 | Level 2 | Level 3 | Total |
|------------------------------------|-----------|-----------|---------|-------------|
| Cash held for long-term investment | \$3,906 | - | - | \$3,906 |
| Exchange-traded funds (ETFs) | 109,858 | - | - | 109,858 |
| Mutual funds | 14,872 | - | - | 14,872 |
| Common stocks | 440,381 | - | - | 440,381 |
| Corporate bonds | - | 638,572 | - | 638,572 |
| Totals | \$569,017 | \$638,572 | - | \$1,207,589 |

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Notes to Financial Statements

Investments are stated at fair value and consist of the following at December 31, 2018:

| | Level 1 | Level 2 | Level 3 | Total |
|------------------------------------|------------------|------------------|----------|--------------------|
| Cash held for long-term investment | \$26,611 | - | - | \$26,611 |
| Exchange-traded funds (ETFs) | 78,577 | - | - | 78,577 |
| Mutual funds | 15,000 | - | - | 15,000 |
| Common stocks | 397,066 | - | - | 397,066 |
| Corporate bonds | - | 650,468 | - | 650,468 |
| Totals | \$517,254 | \$650,468 | - | \$1,167,722 |

Valuation methods used for assets measured at fair value are as follows:

- *Exchange-traded funds* and *common stocks* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual Funds* are valued at the reported net asset value.
- *Corporate bonds* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes, to calculate fair values.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

The following schedule summarizes the investment return and its classification recording in the Statement of Activities for the years ended December 31, 2019 and 2018:

| | Without donor restrictions | With donor restrictions | 2019 Total | 2018 Total |
|---|----------------------------------|----------------------------|------------------|-------------------|
| Interest and dividend income | \$ - | \$44,535 | \$44,535 | \$44,288 |
| Realized and unrealized gains/(losses) | - | 107,077 | 107,077 | (80,880) |
| Investment fees | - | (11,745) | (11,745) | (12,314) |
| Totals | \$ - | \$139,867 | \$139,867 | \$(48,906) |

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Notes to Financial Statements

NOTE 5 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2019 and 2018 are restricted for the following purposes or periods:

| | 2019 | 2018 |
|--|-------------|-------------|
| Subject to expenditure for specified purpose: | | |
| Library enrichment activities: | | |
| Acquisitions and processing | \$11,462 | \$11,126 |
| Memorials | 7,023 | 6,498 |
| The Organization's administration | 5,823 | 5,823 |
| Angel program | 1,713 | 930 |
| Total subject to expenditure for specified purpose | 26,021 | 24,377 |
| Subject to Organization's spending policy and appropriation: | | |
| Endowment funds: | | |
| Support programs that benefit Clayton Library Center for Genealogical Research | 1,263,189 | 1,167,722 |
| Total subject to Organization's spending policy and appropriation | 1,263,189 | 1,167,722 |
| Total Net Assets with Donor Restrictions | \$1,289,210 | \$1,192,099 |

Endowment net assets with donor restrictions:

| | 2019 | 2018 |
|---|-------------|-------------|
| 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 | 435,185 | 339,718 |
| Total endowment funds classified as net assets with donor restrictions | \$1,263,189 | \$1,167,722 |

NOTE 6 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

The following amounts were released from restrictions for the years ended December 31, 2019 and 2018:

| | 2019 | 2018 |
|---|----------|---------|
| Satisfaction of purpose restrictions | | |
| Library enrichment | \$46,147 | \$5,690 |
| Total Net Assets Released from Restrictions | \$46,147 | \$5,690 |

NOTE 7 – NET ASSETS – ENDOWMENT FUND

The invested funds of the Organization's 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

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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.

The Organization’s Endowment Fund net assets composition by type of fund as of December 31, 2019 and 2018:

| | Without Donor Restrictions | With Donor Restrictions | Total 2019 | Total 2018 |
|--|----------------------------------|----------------------------|---------------|---------------|
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor | \$ - | \$828,004 | \$828,004 | \$828,004 |
| Accumulated investment gains | - | 435,185 | 435,185 | 339,718 |
| Total endowment funds | \$ - | \$1,263,189 | \$1,263,189 | \$1,167,722 |

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Notes to Financial Statements

Changes in the Organization's Endowment Fund net assets for the years ended December 31, 2019 and 2018:

| | Without Donor Restrictions | With Donor Restrictions | Total 2019 | Total 2018 |
|---|----------------------------------|----------------------------|---------------|---------------|
| Endowment net assets, beginning of year | \$ - | \$1,167,722 | \$1,167,722 | \$1,216,628 |
| Investment return, net | - | 139,867 | 139,867 | (48,906) |
| Withdrawals | - | (44,400) | (44,400) | - |
| Endowment net assets, end of year | \$ - | \$1,263,189 | \$1,263,189 | \$1,167,722 |

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 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,

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- 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.

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- 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 AND AVAILABILITY

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:

| | 2019 | 2018 |
|---|-------------|-------------|
| Total financial assets | \$1,328,366 | \$1,253,141 |
| Less those unavailable for general expenditures | | |
| Subject to appropriation and satisfaction of donor restrictions | (1,263,189) | (1,167,722) |
| Financial assets available to meet cash needs for general expenditures within one year | \$65,177 | \$85,419 |

The Organization's financial assets have been reduced by amounts not available for general use as they are set aside for long-term investing in the endowment.

The Organization 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. The Organization must maintain adequate resources to meet those responsibilities to its donors and to this end, certain financial assets are found within the Organization's 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, the Organization 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 – CONCENTRATIONS

The Organization conducts its operations solely in the Houston area, and therefore, is subject to risks from changes in local economic conditions. A downturn in the local economy could cause a decrease in contributions.

NOTE 10 – SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 7, 2020, the date the financial statements were available to be issued. In early 2020, an outbreak of the novel strain of coronavirus (COVID-19) emerged globally. The spread of COVID-19 and related global responses have caused material disruptions to many economies around the world, resulting in an economic slowdown. Global equity markets have also experienced significant volatility and weakness. Although governments and central banks have reacted with interventions designed to stabilize economic conditions, the duration and extent of the impact of the COVID-19 outbreak remains unclear.

The Organization has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and statement of activities as of and for the year ended December 31, 2019 have not been adjusted to

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reflect their impact. As of October 7, 2020, the virus and related responses have not significantly impacted the Organization's ability to continue to operate and provide services. While it is possible that the virus and related responses could have a negative effect on the Organization's activities and financial position (such as the fair value of the Organization's investments and contributions from donors), the ultimate impact of COVID-19 is not reasonably estimable at this time.