

# Clayton Library Friends

Independent Auditors' Report and  
Financial Statements for the Year Ended December 31, 2021  
(with comparative totals for 2020)



**Independent Auditors' Report** ..... 1 - 2

**Financial Statements**

    Statement of Financial Position .....3

    Statement of Activities .....4

    Statement of Functional Expenses .....5

    Statement of Cash Flows .....6

    Notes to Financial Statements..... 7 - 16

## INDEPENDENT AUDITORS' REPORT

To the Executive Board  
Clayton Library Friends  
Houston, Texas

### **Opinion**

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, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2021, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Clayton Library Friends and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Clayton Library Friends' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

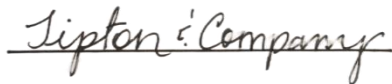
In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Clayton Library Friends' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Clayton Library Friends' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

#### **Report on Summarized Comparative Information**

We have previously audited Clayton Library Friends' 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 12, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Tipton and Company  
Certified Public Accountants  
Houston, Texas

July 18, 2022

# Clayton Library Friends

## Statement of Financial Position

<i>As of December 31, (with comparative totals for 2020)</i>	<b>2021</b>	<b>2020</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 66,908	\$ 79,379
Investments	1,432,487	1,292,132
<b>Total Assets</b>	<b>\$ 1,499,395</b>	<b>\$ 1,371,511</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accrued Expenses	\$ 3,135	\$ 1,169
<b>Total Liabilities</b>	<b>3,135</b>	<b>1,169</b>
Net Assets/(Deficit)		
Without donor restrictions	19,898	12,784
With donor restrictions	1,476,362	1,357,558
<b>Total Net Assets</b>	<b>1,496,260</b>	<b>1,370,342</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 1,499,395</b>	<b>\$ 1,371,511</b>

# Clayton Library Friends

## Statement of Activities

<b>Year Ended December 31,</b> <i>(with comparative totals for 2020)</i>	Without Donor Restrictions	With Donor Restrictions	<b>2021 Total</b>	2020 Total
<b>Operating Activities</b>				
<b>Revenue and Support</b>				
Contributions	\$ 17,148	\$ 4,184	\$ 21,332	\$ 14,026
Membership dues	4,910	-	4,910	5,270
Other income	8,411	-	8,411	3,125
Net assets released from restrictions	25,735	(25,735)	-	-
<b>Total Revenue and Support</b>	<b>56,204</b>	<b>(21,551)</b>	<b>34,653</b>	<b>22,421</b>
<b>Expenses</b>				
Program Services				
Library enrichment	33,069	-	33,069	48,389
Member benefits	1,442	-	1,442	2,409
<b>Total Program Services</b>	<b>34,511</b>	<b>-</b>	<b>34,511</b>	<b>50,798</b>
Supporting Services				
Management and general	14,579	-	14,579	15,549
Fundraising	-	-	-	-
<b>Total Supporting Services</b>	<b>14,579</b>	<b>-</b>	<b>14,579</b>	<b>15,549</b>
<b>Total Expenses</b>	<b>49,090</b>	<b>-</b>	<b>49,090</b>	<b>66,347</b>
<b>Change in Net Assets from Operating Activities</b>	<b>7,114</b>	<b>(21,551)</b>	<b>(14,437)</b>	<b>(43,926)</b>
<b>Nonoperating Activities</b>				
Investment income/(loss), net	-	140,355	140,355	84,543
<b>Change in Net Assets from Nonoperating Activities</b>	<b>-</b>	<b>140,355</b>	<b>140,355</b>	<b>84,543</b>
<b>Change in Net Assets</b>	<b>7,114</b>	<b>118,804</b>	<b>125,918</b>	<b>40,617</b>
Net Assets, Beginning of Year	12,784	1,357,558	1,370,342	1,329,725
<b>Net Assets, End of Year</b>	<b>\$ 19,898</b>	<b>\$ 1,476,362</b>	<b>\$ 1,496,260</b>	<b>\$ 1,370,342</b>

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

## Clayton Library Friends

### Statement of Functional Expenses

<b>Year Ended December 31,</b> <i>(with comparative totals for 2020)</i>	Program Services			Supporting Services			<b>2021 Total</b>	2020 Total
	Library Enrichment	Member Benefits	Total Program Services	Management and General	Fundraising	Total Supporting Services		
<b>Expenses</b>								
Accounting	\$ -	\$ -	\$ -	\$ 12,487	\$ -	\$ 12,487	<b>\$ 12,487</b>	\$ 12,413
Bank fees	-	-	-	69	-	69	<b>69</b>	2
Depreciation	-	-	-	-	-	-	-	1,359
Development	-	-	-	725	-	725	<b>725</b>	2,885
Directors' insurance premiums	-	-	-	442	-	442	<b>442</b>	445
Donations to Clayton Library - books	33,069	-	33,069	-	-	-	<b>33,069</b>	44,154
Miscellaneous	-	125	125	468	-	468	<b>593</b>	2,719
Printing and postage	-	166	166	331	-	331	<b>497</b>	785
Supplies	-	-	-	57	-	57	<b>57</b>	421
Website	-	1,151	1,151	-	-	-	<b>1,151</b>	1,164
<b>Total Expenses</b>	<b>\$ 33,069</b>	<b>\$ 1,442</b>	<b>\$ 34,511</b>	<b>\$ 14,579</b>	<b>\$ -</b>	<b>\$ 14,579</b>	<b>\$ 49,090</b>	<b>\$ 66,347</b>

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

# Clayton Library Friends

## Statement of Cash Flows

<b>Year Ended December 31, (with comparative totals for 2020)</b>	<b>2021</b>	<b>2020</b>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 125,918	\$ 40,617
Adjustments to reconcile change in net assets to net change in cash from operating activities:		
Depreciation	-	1,359
Realized and unrealized loss/(gain) on investments	(119,026)	(59,563)
Changes in assets and liabilities:		
Accrued expenses	1,966	1,169
Total Adjustments	(117,060)	(57,035)
Net Change from Operating Activities	<b>8,858</b>	<b>(16,418)</b>
<b>Cash Flows From Investing Activities</b>		
Interest and dividends reinvested	(34,945)	(36,454)
Investment fees	13,616	11,474
Net Change from Investing Activities	<b>(21,329)</b>	<b>(24,980)</b>
<b>Net Change in Cash and Cash Equivalents</b>		
Cash and Cash Equivalents, Beginning of Year	79,379	120,777
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 66,908</b>	<b>\$ 79,379</b>



# Clayton Library Friends

## Notes to Financial Statements

---

### NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Operations

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. Assets restricted solely through the actions of the Board of Directors are reported as net assets without donor restrictions, board-designated.
- *Net assets with donor restrictions* are resources that are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor-imposed restrictions are perpetual in nature, where the

# Clayton Library Friends

## Notes to Financial Statements

---

donor stipulates that resources be maintained in perpetuity. Donor-restricted endowment earnings are released when those earnings are appropriated with spending policies and are used for the specified purpose.

### 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.

### Investments

The Organization records investments at fair value. Investment income consists of interest and dividends, realized and unrealized gains and losses, net of investment expenses.

### 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.

### Contributed Services

The Organization receives a substantial amount of services donated by volunteers in carrying out the Organization's programs. Contributions of services are recognized as support at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. No amounts have been reflected in the financial statements for donated services, as they do not meet the criteria for recognition.

### Donated Assets

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

### Grants and Contributions

Grants and contributions are recognized at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met.

### 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.

# Clayton Library Friends

## Notes to Financial Statements

---

The Organization applies the provisions of FASB ASC Topic 740, *Income Taxes*, 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. Topic 740 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.

### Advertising

Advertising costs are expensed as incurred. Advertising expenses for the year ended December 31, 2021 and 2020 were \$0 and \$2,020, respectively.

### 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.

### 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, 2020, 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 – 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:

<hr/>	
Financial assets:	
Cash and cash equivalents	\$ 66,908
Investments	1,432,487
<hr/>	
Total financial assets	1,499,395
Less those unavailable for general expenditures:	
Endowment funds	(1,432,487)
<hr/>	
Financial assets available to meet cash needs for general expenditures within one year	\$ 66,908
<hr/>	

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing program activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

# Clayton Library Friends

## Notes to Financial Statements

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 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, 2021 and 2020, the Organization did not have any cash balances that were not covered by FDIC insurance.

The Organization's investments amount to \$1,432,487 and \$1,292,132 at December 31, 2021 and 2020, 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 \$932,487 and \$792,132 at December 31, 2021 and 2020, 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 – PROPERTY AND EQUIPMENT

As of December 31, 2021 and 2020, property and equipment consisted of the following:

	2021	2020
Office equipment	\$33,191	\$33,191
Less: accumulated depreciation	(33,191)	(33,191)
Total property and equipment, net	\$ -	\$ -

Depreciation expense charged to operations for the year ended December 31, 2021 and 2020 was \$0 and \$1,359, respectively.

### NOTE 5 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

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).

# Clayton Library Friends

## Notes to Financial Statements

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.

Investments measured at fair value as of December 31, 2021 are as follows:

	Level 1	Level 2	Level 3	Total
Cash held for long-term investment	\$ 32,670	-	-	\$ 32,670
Exchange-traded funds (ETFs)	333,775	-	-	333,775
Common stocks	488,171	-	-	488,171
Corporate bonds	-	577,871	-	577,871
<b>Totals</b>	<b>\$854,616</b>	<b>\$577,871</b>	<b>-</b>	<b>\$1,432,487</b>

Investments measured at fair value as of December 31, 2020 are as follows:

	Level 1	Level 2	Level 3	Total
Cash held for long-term investment	\$ 30,816	-	-	\$ 30,816
Exchange-traded funds (ETFs)	362,382	-	-	362,382
Common stocks	442,358	-	-	442,358
Corporate bonds	-	456,576	-	456,576
<b>Totals</b>	<b>\$835,556</b>	<b>\$456,576</b>	<b>-</b>	<b>\$1,292,132</b>

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.

# Clayton Library Friends

## Notes to Financial Statements

### NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2021 and 2020 are restricted for the following purposes or periods:

	2021	2020
Subject to expenditure for specified purpose:		
Library enrichment activities:		
Acquisitions and processing	\$ 42,536	\$ 42,335
Memorials	-	4,061
Angel program	1,339	1,354
Subject to Organization’s spending policy and appropriation:		
Support programs that benefit Clayton Library Center for Genealogical Research	1,432,487	1,309,808
<b>Total net assets with donor restrictions</b>	<b>\$1,476,362</b>	<b>\$1,357,558</b>

Endowment net assets with donor restrictions:

	2021	2020
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	604,483	481,804
<b>Total endowment funds classified as net assets with donor restrictions</b>	<b>\$1,432,487</b>	<b>\$1,309,808</b>

### NOTE 7 – 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, 2021 and 2020:

	2021	2020
Satisfaction of purpose restrictions:		
Acquisitions and processing	\$20,600	\$39,227
Memorials	4,061	4,522
Angel program	1,074	405
<b>Total net assets released from restrictions</b>	<b>\$25,735</b>	<b>\$44,154</b>

# Clayton Library Friends

## Notes to Financial Statements

### NOTE 8 – 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 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.

Endowment Net Asset Composition by Type of Fund as of December 31, 2021 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Amounts required to be maintained in perpetuity	\$ -	\$828,004	\$828,004
Amounts not required to be maintained in perpetuity	-	604,483	604,483
<b>Total endowments funds</b>	<b>\$ -</b>	<b>\$1,432,487</b>	<b>\$1,432,487</b>

# Clayton Library Friends

## Notes to Financial Statements

Endowment Net Asset Composition by Type of Fund as of December 31, 2020 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Amounts required to be maintained in perpetuity	\$ -	\$ 828,004	\$ 828,004
Amounts not required to be maintained in perpetuity	-	481,804	481,804
<b>Total endowments funds</b>	<b>\$ -</b>	<b>\$1,309,808</b>	<b>\$1,309,808</b>

Changes in net assets of the endowment funds are as follows:

	With Donor Restrictions		Total
	Not required to be maintained in perpetuity	Required to be maintained in perpetuity	
Endowment net assets, December 31, 2019	\$435,185	\$828,004	\$1,263,189
Net investment return	84,543	-	84,543
Distributions	(37,924)	-	(37,924)
Endowment net assets, December 31, 2020	481,804	828,004	1,309,808
Net investment return	140,355	-	140,355
Distributions	(17,676)	-	(17,676)
Endowment net assets, December 31, 2021	\$604,483	\$828,004	\$1,432,487

**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.



# Clayton Library Friends

## Notes to Financial Statements

---

**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 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 – RECLASSIFICATION OF NET ASSETS**

During the year ended December 31, 2021, the Organization noted that net assets with donor restrictions were overstated by \$14,621 on the December 31, 2020 financial statements. Accordingly, net assets with donor restrictions at December 31, 2020 were decreased by \$14,621 and net assets without donor restrictions were increased by \$14,621. There was no effect on the current year’s financial statements as a result of the reclassification.

### **NOTE 11 – SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events through July 18, 2022, the date the financial statements were available to be issued. Management has not identified any subsequent events that would require an adjustment to the financial statements or disclosures as required by GAAP.