# CLAYTON LIBRARY FRIENDS

Financial Statements for the Year Ended December 31, 2016
(with comparative totals for 2015)

Bennoch & Tipton LLC
CERTIFIED PUBLIC ACCOUNTANTS

# CLAYTON LIBRARY FRIENDS

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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, 2016, and the related statements of activities 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, 2016, 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' 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 25, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, 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

March 17, 2017

**CLAYTON LIBRARY FRIENDS**
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016 (with comparative totals for 2015)

| | 2016 | 2015 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $ 167,397 | $ 206,869 |
| Prepaid expenses | 2,008 | - |
| Restricted investments | 1,129,265 | 1,074,965 |
| Property and equipment, net | 21,243 | 27,281 |
| TOTAL ASSETS | $ 1,319,913 | $ 1,309,115 |
| NET ASSETS | | |
| Unrestricted | $ 94,109 | $ 134,688 |
| Temporarily restricted | 398,897 | 347,520 |
| Permanently restricted | 826,907 | 826,907 |
| Total Net Assets | 1,319,913 | 1,309,115 |
| TOTAL NET ASSETS | $ 1,319,913 | $ 1,309,115 |

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

**CLAYTON LIBRARY FRIENDS**
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016 (with comparative totals for 2015)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2016 Total | 2015 Total |
|---|---|---|---|---|---|
| PUBLIC SUPPORT AND REVENUES | | | | | |
| Contributions | $ 10,291 | $ 9,176 | $ - | $ 19,467 | $ 23,200 |
| Membership dues | 7,815 | - | - | 7,815 | 6,805 |
| Dividends | - | 41,954 | - | 41,954 | 41,957 |
| Realized and unrealized gain (loss) on investments | - | 23,314 | - | 23,314 | (31,630) |
| Other income | 9,190 | - | - | 9,190 | 2,274 |
| Total Public Support and Revenues | 27,296 | 74,444 | - | 101,740 | 42,606 |
| Net assets released from temporary restrictions | 23,067 | (23,067) | - | - | - |
| Total Public Support and Revenues, and releases from temporary restrictions | 50,363 | 51,377 | - | 101,740 | 42,606 |
| EXPENSES | | | | | |
| Program services | 87,407 | - | - | 87,407 | 52,003 |
| Total Program Services | 87,407 | - | - | 87,407 | 52,003 |
| Supporting Services: | | | | | |
| Management and general | 3,535 | - | - | 3,535 | 3,402 |
| Total Supporting Services | 3,535 | - | - | 3,535 | 3,402 |
| Total Expenses | 90,942 | - | - | 90,942 | 55,405 |
| CHANGE IN NET ASSETS | (40,579) | 51,377 | - | 10,798 | (12,799) |
| NET ASSETS, BEGINNING OF YEAR | 134,688 | 347,520 | 826,907 | 1,309,115 | 1,321,914 |
| NET ASSETS, END OF YEAR | $ 94,109 | $ 398,897 | $ 826,907 | $ 1,319,913 | $ 1,309,115 |

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

**CLAYTON LIBRARY FRIENDS**
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016 (with comparative totals for 2015)

| | 2016 | 2015 |
|---|---|---|
| CHANGE IN CASH FROM OPERATING ACTIVITIES | | |
| Change in net assets | $ 10,798 | $ (12,799) |
| Adjustments to reconcile change in net assets activities to net change in cash from operating activities: | | |
| Depreciation | 6,538 | 4,989 |
| Unrealized (gain) loss on investments | (23,314) | 31,630 |
| Change in operating assets and liabilities: | | |
| Prepaid expenses | (2,008) | - |
| Net Change in Cash from Operating Activities | (7,986) | 23,820 |
| CHANGE IN CASH FROM INVESTING ACTIVITIES | | |
| Purchase of investments | - | (1,000) |
| Purchase of fixed assets | (500) | (9,295) |
| Dividends reinvested, net of investment expenses | (30,986) | (30,939) |
| Net Change in Cash from Investing Activities | (31,486) | (41,234) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (39,472) | (17,414) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 206,869 | 224,283 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 167,397 | $ 206,869 |

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

## NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF 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 Accounting* –** 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.

***Financial Statement Presentation* –** The Organization's financial statements are presented in accordance with Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 958-205-45-4, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958-205-45-4, the Organization is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets – These are resources that are not subject to donor-imposed stipulations and can be used for the general operations of the Organization.

Temporarily restricted net assets – These are resources that are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time.

Permanently restricted net assets – These are resources that are subject to donor restrictions requiring that the principal be held in perpetuity and any income thereon be used by the Organization.

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

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 unrestricted or temporarily restricted revenues when received or unconditionally promised by a third party. Revenues from special events are recognized when the events are held. Interest income is recognized when earned based on passage of time. Program income and other income are recognized when received.

***Contributions and Promises to Give* –** In accordance with FASB ASC 958-605-45-3, *Accounting for Contributions Received and Contributions Made*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Conditional promises to give cash or other assets are not recognized as revenues until received. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions are met in the fiscal year in which the contributions were recognized. All other donor-restricted contributions would be reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

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.

***Contributed Services and Facilities* –** 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.

***Donations* –** Donations are recorded as contributions at fair value at the date of donation. Such donations are reported as unrestricted net assets unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as restricted by the donor.

The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

***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* –** Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Investment income, including unrealized and realized gains and losses, are recognized in the appropriate net asset category according to the existence or absence of donor-imposed restrictions.

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

The useful lives of property and equipment for computing depreciation are:

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

***Functional Allocation of Expenses* –** Expenses are categorized in the Statement of Activities as program services, fundraising and management and general. 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.

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

***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.

***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.

***Fair Value of Financial Instruments*** – The Organization's investments are recorded at fair value. In accordance with accounting principles generally accepted in the United States of America, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measure date (exit price). Accounting principles generally accepted in the United States of America characterize inputs used in determining fair value using a hierarchy that prioritizes inputs depending on the degree to which they are observable. The three levels of the fair value hierarchy are as follows:

Level 1 - Inputs represent quoted prices in active markets for identical assets or liabilities (for example, exchange-traded commodity derivatives).

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (for example, quoted market prices for similar assets or liabilities in active markets or quoted market prices for identical assets or liabilities in markets not considered to be active, inputs other than quoted prices that are observable for the asset or liability, or market corroborated inputs).

Level 3 - Inputs that are not observable from objective sources, such as the Organization's internally developed assumptions about market participant assumptions used in pricing an asset or liability (for example, an estimate of future cash flows used in the Organization's internally developed present value of future cash flows model that underlies the fair value measurement).

All cash, cash equivalents and investments held by the Organization as of December 31, 2016 and 2015 were Level 1.

## NOTE 2 – INVESTMENTS

Cost and fair value of investments at December 31, 2016 and 2015 were as follows:

| | Cost | Gross Unrealized Gains/(Losses) | 2016 Fair Value | 2015 Fair Value |
|---|---|---|---|---|
| Cash held for long-term investment | $ 48,852 | $ - | $ 48,852 | $ 33,845 |
| Equities | 480,581 | 480 | 481,061 | 434,373 |
| Fixed Income | 598,755 | 597 | 599,352 | 606,747 |
| Totals | $ 1,128,188 | $ 1,077 | $ 1,129,265 | $ 1,074,965 |

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, 2016.

The following schedule summarizes the investment return and its classification recording in the Statement of Activity for the years ended December 31, 2016 and 2015:

| | Unrestricted | Temporarily Restricted | 2016 Total | 2015 Total |
|---|---|---|---|---|
| Interest and dividend income | $ - | $ 41,954 | $ 41,954 | $ 41,957 |
| Realized and unrealized gains/(losses) | - | 23,314 | 23,314 | (31,630) |
| Totals | $ - | $ 65,268 | $ 65,268 | $ 10,327 |

## NOTE 3 – TEMPORARILY RESTIRCTED NET ASSETS

Temporarily restricted net assets at December 31, 2016 and 2015 were as follows:

| | 2016 | 2015 |
|---|---|---|
| Angel program | $ 606 | $ 1,097 |
| Clayton house renovation | 37,964 | 37,964 |
| Acquisitions & processing | 5,365 | 7,893 |
| CLF administration | 5,723 | 5,723 |
| Polish materials | 37,330 | 37,330 |
| Memorials | 6,041 | 6,709 |
| Endowment earnings | 302,358 | 248,058 |
| Unspecified | 3,510 | 2,746 |
| Totals | $ 398,897 | $ 347,520 |

## NOTE 4 – PROPERTY AND EQUIPMENT

As of December 31, 2016 and 2015, property and equipment consisted of the following:

| | 2016 Total | 2015 Total |
|---|---|---|
| Equipment | $ 33,191 | $ 32,691 |
| Less: accumulated depreciation | (11,948) | (5,410) |
| Property and equipment, net | $ 21,243 | $ 27,281 |

Depreciation expense for the years ended December 31, 2016 and 2015 amounted to $6,538 and $4,989, respectively.

## NOTE 5 – 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 limit of $250,000 for cash.

The Organization maintains its cash balances in a local bank. These balances are insured by the FDIC up to $250,000. At December 31, 2016 and 2015, the Organization did not have any cash balances that were not covered by FDIC insurance.

The Organization's investments amount to approximately $1,129,265 and $1,074,965 at December 31, 2016 and 2015, 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 $629,265 and $474,965 at December 31, 2016 and 2015, 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 combining financial statements.

## NOTE 6 – CONCENTRATIONS

The Organization is dependent on several sources of support and revenue. One individual makes up twelve percent (12%) of the Organization’s contributions for the year ended December 31, 2015.

## NOTE 7 – PERMANENTLY RESTRICTED 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 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 Executive Board of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

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, 2016 and 2015:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2016 Total | 2015 Total |
|---|---|---|---|---|---|
| Donor-restricted endowment funds | $ - | $ 302,358 | $ 826,907 | $ 1,129,265 | $ 1,074,965 |
| Total Funds | $ - | $ 302,358 | $ 826,907 | $ 1,129,265 | $ 1,074,965 |

Changes in Clayton Library Friends Endowment Fund net assets for the years ended December 31, 2016 and 2015:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2016 Total | 2015 Total |
|---|---|---|---|---|---|
| Endowment net assets, beginning of year | $ - | $ 248,058 | $ 826,907 | $ 1,074,965 | $ 1,074,656 |
| Investment return: | | | | | |
| Investment income | - | 41,954 | - | 41,954 | 41,957 |
| Net depreciation (realized and unrealized) | - | 23,314 | - | 23,314 | (31,630) |
| Total Investment Return | - | 65,268 | - | 65,268 | 10,327 |
| Contributions | - | - | - | - | 1,000 |
| Appropriation of endowment assets for expenditure | - | (10,968) | - | (10,968) | (11,018) |
| Endowment Net Assets, End of Year | $ - | $ 302,358 | $ 826,907 | $ 1,129,265 | $ 1,074,965 |

Description of amounts classified as permanently restricted net assets (Clayton Library Friends Endowment Fund only):

| | 2016 | 2015 |
|---|---|---|
| (1) The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA | $ 826,907 | $ 826,907 |
| Total Endowment Funds Classified As Permanently Restricted Net Assets | $ 826,907 | $ 826,907 |

Description of amounts classified as temporarily restricted net assets (Clayton Library Friends Endowment Fund only):

| | 2016 | 2015 |
|---|---|---|
| (1) Endowment funds for Clayton Library | $ 302,358 | $ 248,058 |
| Total Endowment Funds Classified As Temporarily Restricted Net Assets | $ 302,358 | $ 248,058 |

**Funds With Deficiencies** – The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2016 and 2015.

**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 permanently restricted, 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 do not automatically become permanently restricted.
- 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 – SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated subsequent events and transactions for potential recognition or disclosure through March 17, 2017, the date the financial statements were available to be issued. The Organization has determined there are no transactions or subsequent events requiring disclosure.