

**THE DETROIT PUBLIC LIBRARY
FRIENDS FOUNDATION, INC.**

FINANCIAL STATEMENTS

APRIL 30, 2018

**BOISVENU & COMPANY, P.C.
Certified Public Accountants
Bingham Farms, Michigan**

THE DETROIT PUBLIC LIBRARY FRIENDS FOUNDATION, INC.

TABLE OF CONTENTS

| | PAGE |
|--|------|
| INDEPENDENT AUDITOR'S REPORT | 1 |
| STATEMENT OF FINANCIAL POSITION | 3 |
| STATEMENT OF ACTIVITIES | 4 |
| STATEMENT OF FUNCTIONAL EXPENSES | 5 |
| STATEMENT OF CASH FLOWS | 6 |
| NOTES TO FINANCIAL STATEMENTS | 7 |



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Detroit Public Library Friends Foundation, Inc.

We have audited the accompanying financial statements of The Detroit Public Library Friends Foundation, Inc. (a nonprofit organization), which comprise the statement of financial position as of April 30, 2018 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 organization'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 organization'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 The Detroit Public Library Friends Foundation, Inc. as of April 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Boisvenu & Company, P.C.

November 15, 2018

THE DETROIT PUBLIC LIBRARY FRIENDS FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

APRIL 30, 2018

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|----------------------------|-----------------------------------|-----------------------------------|----------------------------|
| ASSETS | | | | |
| Current Assets | | | | |
| Cash | \$ 56,375 | \$ 229,854 | \$ - | \$ 286,229 |
| Pledges receivable | - | 20,000 | - | 20,000 |
| Total Current Assets | <u>56,375</u> | <u>249,854</u> | <u>-</u> | <u>306,229</u> |
| Non-current Assets | | | | |
| Investments | 2,851,623 | 108,870 | 632,105 | 3,592,598 |
| Cash surrender value - life insurance | 16,132 | - | - | 16,132 |
| Equipment - net | 218 | - | - | 218 |
| Total Non-current Assets | <u>2,867,973</u> | <u>108,870</u> | <u>632,105</u> | <u>3,608,948</u> |
| TOTAL ASSETS | <u><u>\$ 2,924,348</u></u> | <u><u>\$ 358,724</u></u> | <u><u>\$ 632,105</u></u> | <u><u>\$ 3,915,177</u></u> |
| LIABILITIES AND NET ASSETS | | | | |
| Current Liabilities | | | | |
| Accounts payable | \$ 19,270 | \$ - | \$ - | \$ 19,270 |
| Total Liabilities | <u>19,270</u> | <u>-</u> | <u>-</u> | <u>19,270</u> |
| Net Assets | | | | |
| Unrestricted | | | | |
| Undesignated | 56,494 | - | - | 56,494 |
| Board designated for investment | 2,848,584 | - | - | 2,848,584 |
| Temporarily restricted | - | 358,724 | - | 358,724 |
| Permanently restricted | - | - | 632,105 | 632,105 |
| Total Net Assets | <u>2,905,078</u> | <u>358,724</u> | <u>632,105</u> | <u>3,895,907</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 2,924,348</u></u> | <u><u>\$ 358,724</u></u> | <u><u>\$ 632,105</u></u> | <u><u>\$ 3,915,177</u></u> |

See accompanying notes to financial statements.

THE DETROIT PUBLIC LIBRARY FRIENDS FOUNDATION, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED APRIL 30, 2018

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------|---------------------------|---------------------------|---------------------|
| REVENUE AND SUPPORT | | | | |
| Contributions | \$ 96,313 | \$ 189,359 | \$ - | \$ 285,672 |
| Membership dues | 36,284 | - | - | 36,284 |
| Program income | 3,745 | - | - | 3,745 |
| Investment income - net | <u>196,262</u> | <u>17,467</u> | <u>28,891</u> | <u>242,620</u> |
| | 332,604 | 206,826 | 28,891 | 568,321 |
| Net assets released from restrictions | <u>78,300</u> | <u>(78,300)</u> | <u>-</u> | <u>-</u> |
| TOTAL REVENUE AND SUPPORT | <u>410,904</u> | <u>128,526</u> | <u>28,891</u> | <u>568,321</u> |
| EXPENSES | | | | |
| Program Services | | | | |
| Lecture series | 23,702 | - | - | 23,702 |
| Events | 23,702 | - | - | 23,702 |
| Special collections | 29,297 | - | - | 29,297 |
| Library support and advocacy | <u>208,959</u> | <u>-</u> | <u>-</u> | <u>208,959</u> |
| Total Program Services | <u>285,660</u> | <u>-</u> | <u>-</u> | <u>285,660</u> |
| Supporting Services | | | | |
| Management and general | 25,599 | - | - | 25,599 |
| Fund raising | <u>19,311</u> | <u>-</u> | <u>-</u> | <u>19,311</u> |
| Total Supporting Services | <u>44,910</u> | <u>-</u> | <u>-</u> | <u>44,910</u> |
| TOTAL EXPENSES | <u>330,570</u> | <u>-</u> | <u>-</u> | <u>330,570</u> |
| CHANGE IN NET ASSETS | 80,334 | 128,526 | 28,891 | 237,751 |
| NET ASSETS, beginning of year - restated | <u>2,824,744</u> | <u>230,198</u> | <u>603,214</u> | <u>3,658,156</u> |
| NET ASSETS, end of year | <u>\$ 2,905,078</u> | <u>\$ 358,724</u> | <u>\$ 632,105</u> | <u>\$ 3,895,907</u> |

See accompanying notes to financial statements.

THE DETROIT PUBLIC LIBRARY FRIENDS FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED APRIL 30, 2018

| | Program Services | | | | Supporting Services | | Total |
|---|------------------|------------------|---------------------|------------------------------|------------------------|------------------|-------------------|
| | Lecture Series | Events | Special Collections | Library Support and Advocacy | Management and General | Fund Raising | |
| Salaries | \$ 10,520 | \$ 10,520 | \$ 12,976 | \$ 92,638 | \$ 15,540 | \$ 12,281 | \$ 154,475 |
| Payroll taxes | 803 | 803 | 991 | 7,076 | 1,187 | 939 | 11,799 |
| Outside services | 1,777 | 1,777 | 2,192 | 15,652 | 2,625 | 2,075 | 26,098 |
| Occupancy | 2,043 | 2,043 | 2,520 | 17,991 | 3,018 | 2,385 | 30,000 |
| Office equipment and technology | 694 | 694 | 856 | 6,109 | 1,025 | 809 | 10,187 |
| Office supplies, dues and fees | 87 | 87 | 109 | 771 | 129 | 102 | 1,285 |
| Program activities and materials | 7,015 | 7,015 | 8,662 | 61,822 | - | - | 84,514 |
| Meetings, conferences and travel | 511 | 511 | 681 | 4,682 | 1,702 | 426 | 8,513 |
| Insurance | 244 | 244 | 300 | 2,147 | 360 | 285 | 3,580 |
| Total Functional Expenses Before Depreciation | 23,694 | 23,694 | 29,287 | 208,888 | 25,586 | 19,302 | 330,451 |
| Depreciation | 8 | 8 | 10 | 71 | 13 | 9 | 119 |
| Total Functional Expenses | <u>\$ 23,702</u> | <u>\$ 23,702</u> | <u>\$ 29,297</u> | <u>\$ 208,959</u> | <u>\$ 25,599</u> | <u>\$ 19,311</u> | <u>\$ 330,570</u> |

See accompanying notes to financial statements.

THE DETROIT PUBLIC LIBRARY FRIENDS FOUNDATION, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED APRIL 30, 2018

| | |
|---|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Change in net assets | \$ 237,751 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | |
| Depreciation | 119 |
| Net realized and unrealized gain on investments | (193,084) |
| Increase in cash value of life insurance | (489) |
| Increase (decrease) in operating liabilities | |
| Accounts payable | <u>6,639</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>50,936</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Purchase of investments | (586,719) |
| Proceeds from sale of investments | <u>639,683</u> |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | <u>52,964</u> |
| NET INCREASE IN CASH | 103,900 |
| CASH, beginning of year | <u>182,329</u> |
| CASH, end of year | <u>\$ 286,229</u> |

See accompanying notes to financial statements.

THE DETROIT PUBLIC LIBRARY FRIENDS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Detroit Public Library Friends Foundation, Inc. (the Organization) is a Michigan nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as an organization that is not a private foundation. The Organization is dedicated to supporting the Detroit Public Library (Library) through volunteering and fund raising, to ensure that the Detroit Public Library can continue its mission of providing enrichment programming to library patrons, and to preserve a space in Detroit where everyone is welcome to work, study, learn and create.

The Organization's program and supporting services are as follows:

Program Services

Programs and activities – includes all activities related to 1) organizing educational seminars, workshops, and other programs to attract public interest in the various library departments, 2) reimbursing the library branches for specific programs, and 3) organizing special programs and publications for people interested in the Detroit Public Library. Program activity expenditures are classified as follows:

- Lecture Series – includes events throughout the year.
- Events – includes youth and family learning, technology and access, and re-imagined spaces.
- Special Collections – captures the spirit and promotes the value of the Library.
- Library Support and Advocacy – includes community engagement.

Management and General

This includes the functions necessary to maintain an adequate working environment, provide proper administrative support of the Organization's programs, and manage the financial and budgeting responsibilities of the Organization.

Fund Raising

This provides the structure necessary to encourage and secure support from individuals, foundations and government agencies.

THE DETROIT PUBLIC LIBRARY FRIENDS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, Presentation of Financial Statements. Under ASC 958-205, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted Net Assets – net assets that are not subject to “donor-imposed” time or purpose restrictions.

Board Designated Net Assets – these designations are based on actions by the Board of Directors, which can be altered or revoked at a future time.

Temporarily Restricted Net Assets – net assets subject to “donor-imposed” restrictions that may or will be met by actions of the Organization and/or the passage of time. Restrictions that expire with the passage of time or can be removed by accomplishing certain requirements are classified as temporarily restricted net assets.

Permanently Restricted Net Assets – net assets subject to “donor-imposed” restrictions that they be maintained in perpetuity. Restrictions that require an asset be invested and only allow the income to be used are classified as permanently restricted net assets.

Earnings, gains and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments with maturities of three months or less when purchased are considered cash equivalents and recorded at cost, which approximates fair value. The Organization has no cash equivalents at April 30, 2018.

THE DETROIT PUBLIC LIBRARY FRIENDS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pledges Receivable

The Organization considers pledges receivable to be fully collectible at April 30, 2018; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Investments

Investments are recorded at fair value, or for gifts, market value at the date of the gift. The unrealized gains and losses are reported in the statement of financial position and statement of activities as increases and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulation or law. Investment losses reduce temporarily or permanently restricted net assets to the extent that donor imposed restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining losses are reported as decreases in unrestricted net assets.

Equipment

Equipment is carried at cost or, if donated, at fair market value at the time of the donation. Depreciation is provided on a straight-line basis over the estimated useful life of five years. The Organization's policy is to capitalize acquisitions of \$500 or more. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Revenue and Support

Revenue from grant awards under expense reimbursement programs is recognized in the period during which the related expenses are incurred. In cases where expenses are incurred in advance of receiving the grant, revenue and accounts receivable are recorded in the period during which the expenses are incurred. In cases where grants are received in advance of incurring the expenses, deferred revenue is recorded in the period during which the advance is received and recognized as income when the related expenses are incurred.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

THE DETROIT PUBLIC LIBRARY FRIENDS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue and Support (continued)

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), 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 reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributions of donated services that create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills, and that would typically need to be purchased if not provided by donation are recorded at their fair values in the period received. No amounts have been reflected in the financial statements for donated services. The Organization pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific program activities

Functional Classification of Expenses

Direct expenses, which can be clearly defined as incurred for a specific program, are charged to that program. The Organization allocates common expenses to program and supporting services based on time and use studies by management.

Tax Positions

The Organization is subject to routine audits by taxing jurisdictions; however, there are no audits currently in progress for any tax periods. The Organization believes it is no longer subject to income tax examinations for fiscal years ending prior to April 30, 2011.

Fair Value Disclosure

Generally accepted accounting principles require disclosure of an estimate of fair value of certain financial instruments. The Organization's significant financial instruments are cash, pledges receivable, and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value.

THE DETROIT PUBLIC LIBRARY FRIENDS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

2. FAIR VALUE MEASUREMENTS

Various inputs may be used in determining the fair value of the Organization's assets and liabilities measured on a recurring basis. These inputs are market-based measurements based on and determined by the assumptions that market participants would use in pricing an asset or a liability and are summarized into three levels:

- Level (1): Inputs to the valuation methodology are quoted prices for identical assets in active markets.
- Level (2): Inputs to the valuation methodology include quoted prices for similar assets in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals and net asset values (NAV).
- Level (3): Inputs to the valuation methodology are unobservable and significant to the fair value measurement (including the Organization's own assumptions in determining the fair value of an asset or a liability).

Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about projections market participants would use in developing a price that would be received to sell an asset or paid to transfer a liability based on the best information available in the circumstances. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Organization's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The following table summarizes the Organization's inputs used to determine their values on April 30, 2018:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|----------------------------------|---------------------|---------------------|----------------|
| Money market | \$ - | \$ 254,446 | \$ - |
| Debt securities | - | 759,151 | - |
| Equity securities | 700,544 | - | - |
| Mutual funds - Debt securities | - | 490,451 | - |
| Mutual funds - Equity securities | <u>1,388,006</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 2,088,550</u> | <u>\$ 1,504,048</u> | <u>\$ -</u> |

THE DETROIT PUBLIC LIBRARY FRIENDS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

3. INVESTMENTS

Investments are recorded at fair value and at April 30, 2018 consist of the following:

| | <u>Cost</u> | <u>Fair Value</u> |
|-------------------|---------------------|-----------------------|
| Money market | \$ 254,446 | \$ 254,446 |
| Debt securities | 772,530 | 759,151 |
| Equity securities | 521,680 | 700,544 |
| Mutual funds | <u>1,599,633</u> | <u>1,878,457</u> |
| | <u>\$ 3,148,289</u> | <u>\$ 3,592,598</u> |

The following schedule details the investment income in the statement of activities for the year ended April 30, 2018:

| | |
|----------------------------------|-------------------|
| Interest and dividend income | \$ 75,337 |
| Net realized and unrealized gain | 193,084 |
| Investment fees | <u>(25,801)</u> |
| | <u>\$ 242,620</u> |

4. EQUIPMENT

At April 30, 2018, equipment consists of the following:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Dispositions</u> | <u>Ending Balance</u> |
|-------------------------------|------------------------------|------------------|---------------------|---------------------------|
| Equipment | <u>\$ 3,545</u> | <u>\$ -</u> | <u>\$ -</u> | \$ 3,545 |
| Less accumulated depreciation | | | | <u>3,327</u> |
| | | | | <u>\$ 218</u> |

THE DETROIT PUBLIC LIBRARY FRIENDS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

5. OPERATING LEASES

The Organization is obligated under leases for office equipment expiring on various dates through 2022.

Future minimum lease payments are as follows for the years ending April 30:

| | | |
|------|----|--------------|
| 2019 | \$ | 3,742 |
| 2020 | | 2,065 |
| 2021 | | 1,920 |
| 2022 | | 1,920 |
| 2023 | | <u>320</u> |
| | \$ | <u>9,967</u> |

Rental expense for the above lease agreements was approximately \$4,700 for the year ended April 30, 2018.

THE DETROIT PUBLIC LIBRARY FRIENDS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

6. TEMPORARILY RESTRICTED NET ASSETS

At April 30, 2018, temporarily restricted net assets consist of cash, pledges receivable and investments and are available for the following:

| | |
|--------------------------------------|-------------------|
| Time restriction | |
| Future operations | \$ 37,083 |
| Purpose restriction | |
| Youth and Family Learning | 100,000 |
| Fund for Rare Books | 55,746 |
| Burton Duplicate Sale Materials | 40,635 |
| Children's Room | 37,899 |
| Story Telling Festival | 15,544 |
| Hype Detroit Radio for Teens Project | 10,000 |
| Burton Collection | 9,183 |
| Summer Reading | 7,828 |
| Tour Program | 7,226 |
| Hackley Concert | 6,342 |
| Fund for Books | 6,042 |
| Author Day | 5,130 |
| Technology and Access | 5,000 |
| Children's Literacy | 3,250 |
| African Americans in Healthcare | 3,000 |
| Tea Party Program | 2,875 |
| Learning Circles Model | 2,500 |
| Children's Mosaic Project | 1,600 |
| Memorial Book Fund | 1,389 |
| Bike Tech for Main and Redford | 452 |
| | <u>\$ 358,724</u> |

THE DETROIT PUBLIC LIBRARY FRIENDS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

7. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors during the year are as follows:

| | |
|----------------------------------|------------------|
| Time restriction met | |
| Future operations | \$ 22,917 |
| Purpose restriction accomplished | |
| Summer reading | 12,691 |
| Tour Program | 8,928 |
| Hackley Concert | 8,422 |
| Burton Duplicate Sale Materials | 8,406 |
| Children's Mosaic Project | 7,500 |
| Mt. Elliot Makerspace | 3,800 |
| Fund for Rare Books | 3,040 |
| Children's Literacy | 1,500 |
| Choral Group | <u>1,096</u> |
| | <u>\$ 78,300</u> |

8. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of an endowment whose earnings may be used to benefit various activities performed by the Organization.

At April 30, 2018, the following schedule details various endowments and their purposes:

| | |
|-------------------------------------|-------------------|
| Investments | |
| LEW Endowment Fund | |
| Burton Historical Library funding | \$ 622,105 |
| Doris Pugh Parker Fund for Children | |
| Funding of children services | <u>10,000</u> |
| | <u>\$ 632,105</u> |

THE DETROIT PUBLIC LIBRARY FRIENDS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

9. ENDOWMENT FUND CHANGES

The Organization's endowments consist of investment funds and securities established for various purposes. Its net assets are unrestricted assets and donor-restricted assets. As required by generally accepted accounting principles, net assets are classified and reported based on the existence or absence of donor-imposed restrictions.

Changes in endowment net assets for the year ended April 30, 2018 are summarized as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Balance at April 30, 2017 | \$ 2,754,821 | \$ 94,443 | \$ 603,214 | \$ 3,452,478 |
| Contributions | - | - | - | - |
| Investment return - net | 196,262 | 17,467 | 28,891 | 242,620 |
| Appropriated expenditures | <u>(99,460)</u> | <u>(3,040)</u> | <u>-</u> | <u>(102,500)</u> |
| Balance at April 30, 2018 | <u>\$ 2,851,623</u> | <u>\$ 108,870</u> | <u>\$ 632,105</u> | <u>\$ 3,592,598</u> |

Interpretation of Relevant Law

The Organization classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulation 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 as permanently restricted is classified as either: temporarily restricted in accordance with the direction of the applicable donor gift instruments or classified as unrestricted net assets based on unrestricted accumulation of earnings until appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by Uniform Prudent Management of Institutional Fund Act (UPMIFA). In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the fund
- The investment policies of the fund

THE DETROIT PUBLIC LIBRARY FRIENDS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

9. ENDOWMENT FUND CHANGES (continued)

Return Objective and Spending Policy

The endowment assets are governed by a spending policy that seeks to distribute a payout rate of the endowment base to support the Organization's programs and operations. The endowment base is defined on the historical value of the original gift. Annual amounts distributed from the endowment funds are determined by the Board of Directors based on an analysis of the Organization's budgeted cash flow needs. Annual amounts available for distribution from the endowment are set forth in the current spending policy and are subject to the authority of the Board of Directors.

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 primary objective is to emphasize long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated as much as it is consistent with the volatility of a comparable market index.

10. IN-KIND DONATIONS

In-Kind Donations are valued at \$30,000 for the year ended April 30, 2018. The offsetting charge is to occupancy.

11. CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash balances in two financial institutions in Michigan. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution. At April 30, 2018, the cash balances are fully insured.

12. CONTINGENT LIABILITIES

In the normal course of operations, there could be outstanding contingent liabilities such as lawsuits, etc., which are not known to the Organization and therefore have not been reflected in the accompanying financial statements. The Organization's management is of the opinion that the liability, if any, will be either immaterial or insurance coverage is adequate to cover any potential losses.

THE DETROIT PUBLIC LIBRARY FRIENDS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

13. PRIOR PERIOD ADJUSTMENTS

Certain adjustments to the reported net assets in the Organization's previously issued April 30, 2017 financial statements have been made in the current year. This resulted in the following changes to net assets as of April 30, 2017:

| | <u>Undesignated</u> | <u>Board Designated</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-----------------------------|---------------------|-----------------------------|-----------------------------------|-----------------------------------|---------------------|
| Previously reported 4/30/17 | \$ 1,546,907 | \$ - | \$ 1,518,036 | \$ 593,213 | \$ 3,658,156 |
| Future operations | | | | | |
| Pledges receivable | (20,000) | - | 20,000 | - | - |
| Board designated | (1,456,984) | 2,754,821 | (1,297,837) | - | - |
| Permanently restricted | <u>-</u> | <u>-</u> | <u>(10,001)</u> | <u>10,001</u> | <u>-</u> |
| As restated, 4/30/17 | <u>\$ 69,923</u> | <u>\$ 2,754,821</u> | <u>\$ 230,198</u> | <u>\$ 603,214</u> | <u>\$ 3,658,156</u> |

14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 15, 2018, the date the financial statements were available to be issued.