

THE SAN JOSE PUBLIC LIBRARY FOUNDATION

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

AND

INDEPENDENT AUDITORS' REPORT

SAN JOSE PUBLIC LIBRARY FOUNDATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The San Jose Public Library Foundation
San Jose, California

We have audited the accompanying financial statements of The San Jose Public Library Foundation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The San Jose Public Library Foundation as of December 31, 2016, 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.

Report on Summarized Comparative Information

We have previously audited The San Jose Public Library Foundation's 2015 financial statements, and our report dated August 11, 2016, expressed an unmodified opinion on those audited financial statements. 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.

*Johansen & Yau
Accountancy Corporation*

San Jose, California
October 25, 2017

THE SAN JOSE PUBLIC LIBRARY FOUNDATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016
(With Comparative Totals as of December 31, 2015)

ASSETS

	2016	2015
Current assets		
Cash and cash equivalents	\$ 377,220	\$ 458,800
Investments - Note 3	-	146,262
Grants receivable	104,492	75,000
Pledges receivable, net - Note 2	22,545	37,784
Prepaid expenses	1,703	27,202
Total current assets	505,960	745,048
Long-term pledges receivable, net - Note 2	1,594	14,181
Property and equipment, net of accumulated depreciation - Note 4	2,479	-
	\$ 510,033	\$ 759,229

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued expenses	\$ 20,142	\$ 26,241
Grants payable	-	92,800
Accrued expenses	11,490	3,798
Total current liabilities	31,632	122,839
Net assets		
Unrestricted	212,885	293,418
Temporarily restricted - Note 8	265,516	342,972
	478,401	636,390
	\$ 510,033	\$ 759,229

See accompanying notes to financial statements

THE SAN JOSE PUBLIC LIBRARY FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

	<u>2016</u>			<u>2015</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
Support and revenue				
Public support	\$ 261,389	\$ 306,514	\$ 567,903	\$ 608,834
In-kind contributions - Note 7	10,020	15,000	25,020	11,620
Investment income - Note 3	800	-	800	991
Net assets released from restrictions	398,970	(398,970)	-	-
Total support and revenue	<u>671,179</u>	<u>(77,456)</u>	<u>593,723</u>	<u>621,445</u>
Expenses				
Program expenses	455,373	-	455,373	401,721
Supporting expenses				
Management and general	59,075	-	59,075	33,212
Fundraising	237,264	-	237,264	142,927
Total expenses	<u>751,712</u>	<u>-</u>	<u>751,712</u>	<u>577,860</u>
Change in net assets	(80,533)	(77,456)	(157,989)	43,585
Net assets, beginning of year	<u>293,418</u>	<u>342,972</u>	<u>636,390</u>	<u>592,805</u>
Net assets, end of year	<u>\$ 212,885</u>	<u>\$ 265,516</u>	<u>\$ 478,401</u>	<u>\$ 636,390</u>

See accompanying notes to financial statements

THE SAN JOSE PUBLIC LIBRARY FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

	<u>2016</u>			<u>2015</u>	
	<u>Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>	<u>Total</u>
Salaries	\$ 30,536	\$ 17,177	\$ 143,138	\$ 190,851	\$ 137,736
Payroll taxes	2,332	1,311	10,929	14,572	13,243
Employee benefits	1,317	741	6,176	8,234	17,414
 Total salaries and related expenses	 34,185	 19,229	 160,243	 213,657	 168,393
Grants to library	315,200	-	-	315,200	194,881
Literacy events	86,301	-	-	86,301	87,644
Outside services	404	32,046	3,611	36,061	51,094
Donor appreciation	-	-	2,437	2,437	28,595
In-kind donated facilities and supplies	16,603	902	7,515	25,020	11,620
Postage	-	-	6,071	6,071	15,767
Travel	352	198	1,650	2,200	2,524
Dues, fees and other charges	1,032	2,150	8,163	11,345	8,390
Conferences and meetings	-	1,033	-	1,033	1,847
Insurance	127	71	595	793	3,168
Printing	-	-	40,550	40,550	2,118
Telephone and internet	1,131	636	5,300	7,067	1,468
Supplies	-	2,496	949	3,445	303
Bad debt	-	67	-	67	48
Rent	38	22	180	240	-
Depreciation	-	225	-	225	-
 Total functional expenses	 <u>\$ 455,373</u>	 <u>\$ 59,075</u>	 <u>\$ 237,264</u>	 <u>\$ 751,712</u>	 <u>\$ 577,860</u>

See accompanying notes to financial statements

THE SAN JOSE PUBLIC LIBRARY FOUNDATION
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

	<u>2016</u>	<u>2015</u>
Cash flow from operating activities		
Change in net assets	\$ (157,989)	\$ 43,585
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities		
Depreciation	225	-
Net realized and unrealized loss on investments	560	234
Receipt of donated securities	(13,329)	(9,239)
(Increase) decrease in assets		
Grants receivable	(29,492)	(20,000)
Pledges receivable	27,826	(34,839)
Prepaid expenses	25,499	5,085
Increase (decrease) in liabilities		
Accounts payable	(6,099)	26,241
Grants payable	(92,800)	78,983
Accrued expenses	7,692	(16,678)
	<u>(237,907)</u>	<u>73,372</u>
Cash flows from investing activities		
Purchase of property and equipment	(2,704)	-
Proceeds from sales of investments	159,031	152,908
Purchase of investments	-	(74,000)
	<u>156,327</u>	<u>78,908</u>
Net increase (decrease) in cash and cash equivalents	(81,580)	152,280
Cash and cash equivalents, beginning of year	<u>458,800</u>	<u>306,520</u>
Cash and cash equivalents, end of year	<u>\$ 377,220</u>	<u>\$ 458,800</u>

See accompanying notes to financial statements

THE SAN JOSE PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization - The San Jose Public Library Foundation (the Foundation) is a California nonprofit corporation founded in 1987. The Foundation was established to develop resources that enhance the public library system in San Jose, California. The Foundation's mission is to provide advocacy, financial support and innovative leadership to transform San Jose's public libraries into vibrant learning centers.

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

Basis of Presentation - The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets.

- Unrestricted net assets are unrestricted resources available to support the Foundation's activities and temporarily restricted resources that become available for use by the Foundation in accordance with the intentions of the donors.
- Temporarily restricted net assets consist of donor-restricted contributions for which the applicable restriction was not met at the end of the current year.
- Permanently restricted net assets include those assets which are subject to a non-expiring donor restriction, such as endowments. The Foundation currently does not have any permanently restricted net assets.

Revenue Recognition - The Foundation recognizes revenue on the accrual basis of accounting. The Foundation's primary revenue sources are grants and awards from local governments and foundations and donations from individuals and corporations.

Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as unrestricted, temporarily restricted or permanently restricted depending on the nature of donor imposed restrictions, if any, and upon whether the restrictions are met in the current year.

Donor-restricted contributions are reported as increases in temporarily restricted 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 restriction.

Pledges Receivable and Allowance for Doubtful Pledges - Pledges receivable consist of unconditional promises to give. Unconditional promises to give that are expected to be collected in more than one year are recorded at the present value of their future cash flows. An allowance for uncollectible pledges is recorded, as considered necessary, based on management's analysis of specific unconditional pledges and on the Foundation's prior experience.

THE SAN JOSE PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions In-kind - In-kind donations are recorded at their estimated fair market value on the day of donation. Contributed services, which require a specialized skill and which the Foundation would have paid for if not donated, are recorded at their estimated fair market value at the time the services are rendered. The Foundation also receives other donated services that do not meet the criteria for recognition, but which are, nonetheless, central to the Foundation's operations. These contributed services are not reflected in the accompanying financial statements.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Investments - The Foundation carries investments in certificates of deposits with readily determinable fair values in the statement of financial position as reported by the investment broker. Unrealized gains and losses resulting from market fluctuations are included in the statement of activities in the period such fluctuations occur. Dividend and interest income are accrued when earned and recorded as unrestricted revenue unless income is restricted by the donor.

Property and Equipment - Property and equipment are valued at cost or fair market value at date of gift, if donated. Depreciation of property and equipment is provided on a straight-line basis over the asset's estimated useful life of 3 years. Repairs and maintenance are expensed as incurred.

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.

Functional Allocation of Expenses - The costs of providing the program and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and support services benefited based on management's estimate.

Income Taxes - The Foundation is not classified as a private foundation and is exempt from federal and state income taxes under section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Code. The Foundation is a publicly supported organization. The Financial Accounting Standards Board prescribes a recognition threshold and a measurement attribute for financial statement recognition of tax positions taken or expected on a tax return. Management has evaluated its uncertain tax positions and related income tax contingencies and does not believe any material tax positions exist.

Prior Year 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 Foundation's financial statements for the year ended December 31, 2015, from which the summarized information was obtained.

**THE SAN JOSE PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk - The Foundation maintains cash deposits in excess of federally insured limits.

Contributions from two major donors during the year ended December 31, 2016 accounted for 43% of the Foundation's contributed income. At December 31, 2016, 78% of the Foundation's grants and pledges receivable were from one donor.

Subsequent Events - Subsequent events were evaluated through October 25, 2017, the date the financial statements were available to be issued.

NOTE 2 - PLEDGES RECEIVABLE

At December 31, 2016, pledges receivable are as follows:

Pledges due in less than one year	\$	22,545
Allowance on current pledges receivable		-
		<hr/>
Current pledges receivable, net	\$	22,545
		<hr/>
Pledges due in one to five years	\$	1,668
Allowance on long-term pledges receivable		-
Discount on long-term pledges receivable		(74)
		<hr/>
Long-term pledges receivable, net	\$	1,594
		<hr/>

The Foundation has discounted their long-term pledges receivable by 4.45%, which represents the market yield on US Treasury securities at a 10-year constant maturity as reported by the Federal Reserve on December 31, 2016 plus 2% for risk.

NOTE 3 - INVESTMENTS

The Foundation held certificates of deposit which matured during the year. The Foundation had no investments as of December 31, 2016.

Earnings on investments and cash equivalents were as follows for the year ended December 31, 2016:

Interest and dividends	\$	1,510
Realized loss		(298)
Unrealized gain		(262)
Investment fees		(150)
		<hr/>
	\$	800
		<hr/>

THE SAN JOSE PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 4 - PROPERTY AND EQUIPMENT

Following is a summary of property and equipment for the year ended December 31, 2016:

Computer equipment	\$	2,704
Accumulated depreciation		<u>(225)</u>
	\$	<u>2,479</u>

Depreciation expense for the year ended December 31, 2016 was \$225.

NOTE 5 - FAIR VALUE MEASUREMENTS

Generally accepted accounting principles establish a hierarchy to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the assets based on market data obtained from sources independent of the Foundation. Unobservable inputs reflect the Foundation's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Values are unadjusted quoted prices for identical assets or liabilities in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Foundation's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The Foundation did not have any investments at December 31, 2016.

THE SAN JOSE PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 6 - CONTINGENT LIABILITIES

Conditions contained within the various contracts awarded to the Foundation are subject to the funding agency's criteria under which expenditures are charged and are subject to audit under such criteria. Occasionally, such audits may determine that certain costs claimed may not comply with the established criteria governing them. In such cases, the Foundations management could be held responsible for repayments to the funding agency or be subject to reductions of future funding. Management does not anticipate any material questioned costs for the contracts administered during the period.

NOTE 7 - CONTRIBUTIONS IN-KIND

The estimated fair market value of the facilities and supplies received are recorded as contributions. During the year ended December 31, 2016, the following in-kind contributions were received by the Foundation:

Facilities and supplies	\$	10,020
Program services and supplies		<u>15,000</u>
	\$	<u>25,020</u>

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2016:

Library funding	\$	235,546
Reading activities		<u>29,970</u>
	\$	<u>265,516</u>

NOTE 9 - RETIREMENT PLAN

The Foundation maintains a 401(k) profit sharing plan which covers substantially all employees meeting certain age and service requirements. The Foundation matches employee 401(k) contributions. Contributions to the profit sharing plan are discretionary. The Foundation reserves the right to amend or terminate the plan at any time. The employer matching contributions totaled \$5,592 for the year ended December 31, 2016.

NOTE 10 - RELATED PARTY TRANSACTIONS

Donations from Foundation board members totaled \$19,000 for the year ended December 31, 2016.