

The San Jose Public Library Foundation
(A California Nonprofit Organization)

Audited Financial Statements &
Independent Auditor's Report
December 31, 2021



Chavan & Associates, LLP

Certified Public Accountants
15105 Concord Circle, Ste 130
Morgan Hill, CA 95037

The San Jose Public Library Foundation
(A California Nonprofit Organization)

Table of Contents

TITLE	PAGE
FINANCIAL SECTION	
Independent Auditor’s Report	1
Financial Statements:	
Statement of Financial Position	5
Statement of Activities	6
Statement of Functional Expenses	7
Statement of Cash Flows	8
Notes to Financial Statements	9
FEDERAL AWARD COMPLIANCE SECTION	
Schedule of Expenditures of Federal Awards	24
Notes to Federal Awards Compliance Section	25
OTHER INDEPENDENT AUDITOR’S REPORTS	
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27
Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with Uniform Guidance	29
FINDINGS AND RECOMMENDATIONS	
Schedule of Findings and Questioned Costs	32
Status of Prior Year Findings and Recommendations	33



INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of The San Jose Public Library Foundation (a California Nonprofit Foundation) (the "Foundation") 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 accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2021 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States. 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 the Foundation 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 the 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 the Foundation's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's 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 GAAS 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 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 GAAS and GAGAS, 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 the Foundation's 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 the Foundation's 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.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards and the federal award compliance section, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2022 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance

C & A LLP

August 19, 2022
Morgan Hill, California

Financial Statements

The San Jose Public Library Foundation
(A California Nonprofit Organization)
Statement of Financial Position
December 31, 2021

ASSETS

Cash and cash equivalents	\$ 4,757,348
Investments	6,102,865
Promises to give, net	158,370
Other assets	37,569
Endowment cash	<u>210,107</u>
Total Assets	<u><u>\$ 11,266,259</u></u>

LIABILITIES

Accounts payable	\$ 228,553
Accrued expenses	59,149
Grants payable	767,750
Refundable advances	<u>933,056</u>
Total Liabilities	<u><u>1,988,508</u></u>

NET ASSETS

Without donor restrictions:	
Designated by the board for operating reserves	792,082
Undesignated	<u>653,466</u>
Total without donor restrictions	<u><u>1,445,548</u></u>
With donor restrictions:	
Endowment:	
Perpetual in nature	209,915
Purpose restrictions	<u>7,622,288</u>
Total net assets with donor restrictions	<u><u>7,832,203</u></u>
Total Net Assets	<u><u>9,277,751</u></u>
Total Liabilities and Net Assets	<u><u>\$ 11,266,259</u></u>

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

The San Jose Public Library Foundation

(A California Nonprofit Organization)

Statement of Activities

For the Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions and grants:			
Donations, contributions and miscellaneous grants	\$ 558,435	\$ 4,149,156	\$ 4,707,591
Grants from the City of San Jose	200,000	2,010,649	2,210,649
Program service fees	4,500	-	4,500
In-kind contributions	62,678	269,503	332,181
Net investment return	36,297	7,374	43,671
Net assets released from restrictions:			
Satisfaction of program restrictions	2,866,781	(2,866,781)	-
 Total Revenue and Support	 3,728,691	 3,569,901	 7,298,592
EXPENSES			
Program expenses:			
Educate	1,441,496	-	1,441,496
Engage	139,764	-	139,764
Empower	1,481,163	-	1,481,163
Total program expenses	3,062,423	-	3,062,423
Management and general expenses	304,693	-	304,693
Fundraising	195,595	-	195,595
 Total Expenses	 3,562,711	 -	 3,562,711
 Change in Net Assets	 165,980	 3,569,901	 3,735,881
Total Net Assets - Beginning	1,279,568	4,262,302	5,541,870
Total Net Assets - Ending	\$ 1,445,548	\$ 7,832,203	\$ 9,277,751

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

The San Jose Public Library Foundation
(A California Nonprofit Organization)
Statement of Functional Expenses
For the Year Ended December 31, 2021

	Program Services				Management and Fundraising		Total Expenses
	Educate	Engage	Empower	Total	General	Fundraising	
Salaries	\$ 37,217	\$ 4,173	\$ 396,889	\$ 438,279	\$ 183,915	\$ 114,128	\$ 736,322
Payroll Taxes	3,162	345	47,903	51,410	15,208	9,437	76,055
Employee Benefits	4,373	506	19,554	24,433	22,307	13,842	60,582
Grants to Library	106,241	134,208	403,474	643,923	-	-	643,923
Grants to Others	951,345	-	-	951,345	-	-	951,345
Outside Services	86,635	-	319,969	406,604	44,817	10,549	461,970
Conferences and Meetings	-	-	-	-	3,405	674	4,079
Promotional Activities	-	-	9,710	9,710	-	4,275	13,985
Licenses, Fees and Taxes	846	76	19,157	20,079	4,175	5,969	30,223
In-Kind Expenses	113,352	369	165,182	278,903	16,266	10,094	305,263
Office	14,250	12	2,901	17,163	10,803	339	28,305
Printing and Postage	236	-	733	969	-	24,225	25,194
Insurance	644	75	2,006	2,725	3,325	2,063	8,113
Travel	560	-	450	1,010	472	-	1,482
Computer Software and Supplies	116,610	-	71,260	187,870	-	-	187,870
Tuition and Scholarships	6,025	-	21,975	28,000	-	-	28,000
Totals	<u>\$ 1,441,496</u>	<u>\$ 139,764</u>	<u>\$ 1,481,163</u>	<u>\$ 3,062,423</u>	<u>\$ 304,693</u>	<u>\$ 195,595</u>	<u>\$ 3,562,711</u>

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

The San Jose Public Library Foundation

(A California Nonprofit Organization)

Statement of Cash Flows

For the Year Ended December 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 3,735,881
Adjustments to reconcile change in net assets to net cash provided by/used for operating activities:	
Realized and unrealized (gain) loss on operating investments	16,844
Net investment returns	(55,763)
PPP loans forgiven	(41,696)
Endowment distributions	5,000
Investment income from endowments, net	(7,160)
Contributions restricted to endowments	(97,031)
Noncash inventory contributions	(25,000)
Noncash equipment contributions	(269,503)
Noncash equipment donations to library	269,503
Noncash stock contributions	(1,918)
Changes in operating assets and liabilities:	
Promises to give, net	50,753
Other assets	(1,487)
Accounts payable	202,911
Accrued expenses	37,116
Grants payable	(367,328)
Refundable donor advances	933,056
Net cash provided by (used for) operating activities	<u>4,384,178</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of investments	(819,463)
Proceeds from sale of investments	98,555
Purchases of investments restricted to endowment, net	(7,160)
Purchases of assets restricted for investment in endowment	(97,031)
Net cash provided by (used for) investing activities	<u>(825,099)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from contributions and investment return restricted to endowment	104,191
Distributions from restricted endowment	(5,000)
Net cash provided by (used for) financing activities	<u>99,191</u>

Net change in cash and cash equivalents 3,658,270

Cash and cash equivalents - beginning of year 1,099,078

Cash and cash equivalents - end of year \$ 4,757,348

Supplemental disclosure:

In-kind contributions - equipment	\$ 269,503
In-kind contributions - inventory	25,000
In-kind contributions - space and services	35,760
In-kind contributions - stock	1,918
Total in-kind contributions	<u>\$ 332,181</u>

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

The San Jose Public Library Foundation

(A California Nonprofit Organization)

Notes to Financial Statements

For the Year Ended December 31, 2021

NOTE 1 - PRINCIPAL ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

The San Jose Public Library Foundation (the “Organization” or the “Foundation”) is a 501(c)(3) corporation founded in 1987. The Foundation was established to develop resources that enhance the public library system in San Jose, California. The Foundation provides advocacy, financial support, and leadership to public libraries and educational programs throughout San Jose to create an educated, equitable, and engaged community. The Foundation identifies three programs in its financial statements: Educate, Engage and Empower, as follows:

Educate

The Foundation supports a variety of education and enrichment programs that serve residents of all ages, from infants to senior adults, making every Library a center for lifelong learning and includes the Coding5K, Wee Programs, San Jose Learns, Partners in Reading, Career Online High School, and Working Scholars programs.

Engage

The Foundation enhances the Library's role as the heart of the community, strengthening its function as a dependable and vibrant neighborhood gathering place, a trusted hub for sharing ideas, resources, and information and includes the Branch Support, Art and Culture, TeenHQ, Summer Learning, and SJ Engage programs.

Empower

The Foundation's programs envision true equity by fortifying community members with the knowledge and skills to actively participate in democracy, bolstering their ability to move along life's path or to chart a new course entirely and includes the SJ Access, SJ Aspires, SJPL Works, Resilience Corps, Family, Friend, and Neighbor (FFN) Caregiver Support Network programs.

Basis of Presentation

The financial statements are presented using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP) for not-for-profit entities (FASB Topic 958, ASU 2016-14).

Cash and Cash Equivalents

The Foundation considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition, as applicable.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for program support services. Management has determined the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. As of December 31, 2021, there were no accounts receivable nor an allowance for accounts receivable.

The San Jose Public Library Foundation

(A California Nonprofit Organization)

Notes to Financial Statements

For the Year Ended December 31, 2021

Promises to Give and Grant Receivable

The Foundation records unconditional promises to give and grants receivable that are expected to be collected within one year at net realizable value. Unconditional promises to give and grants expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. The Foundation determines the allowance for uncollectable promises to give and grants receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give and grant receivable are written off when deemed uncollectable. As of December 31, 2021, the Foundation did not record an allowance for uncollectable accounts.

Investments

The Foundation records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Property and Equipment

The Foundation records property and equipment additions at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets of 3 years. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently. Management did not review the carrying values of property and equipment for impairment because they were immaterial to the financial statements as of December 31, 2021.

Grants Payable

The Foundation provides funding to various libraries and school districts in San Jose based on grant agreements, donor restrictions and needs assessments as evaluated by management and the board.

Refundable Advances

When applicable, a transfer of assets (i.e. cash received) that is related to a conditional contribution is accounted for as a refundable advance in the accompanying statement of financial position until the conditions have been substantially met or explicitly waived by the donor or grantor. Changes in refundable advances result from timing differences between payments received from donors and the satisfaction of the conditions within the contracts and grant agreements. During the year, the Foundation reported \$933,056 as refundable advances for grants received in advance of the condition required to record this as revenue. Revenue is recognized when qualified expenses are incurred and conditions under the contract or grant agreement are met.

The San Jose Public Library Foundation

(A California Nonprofit Organization)

Notes to Financial Statements

For the Year Ended December 31, 2021

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve. The reserve is intended to be used for emergencies and non-recurring situations and not to replace a permanent loss of funding or ongoing budget gaps. The board can approve the use of the reserve when cash flows are inadequate to meet monthly operating needs, and it is the policy of the board to take steps to replenish the operating reserve within a reasonable period-of-time. The following is a summary of the changes in the board designated endowment for the year ended December 31, 2021:

Beginning balance	\$	491,053
Board designated contributions		264,000
Accumulated investment gains, net		<u>37,029</u>
Total Endowments	\$	<u>792,082</u>

Net Assets With Donor Restrictions

Net assets subject to donor-imposed (or certain grantor-imposed) restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. 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.

Revenue Recognition - Contracts with Customers Accounted for in Accordance with ASC 606

The Foundation recognizes revenue when it satisfies a performance obligation by transferring a promised good to, or performing a service for, a customer. The amount of revenue recognized reflects the consideration the Foundation expects to receive in exchange for satisfying distinct performance obligations. If a performance obligation does not meet the criteria to be considered distinct, the Foundation combines it with other performance obligations until a distinct bundle of goods or services exists. Performance obligations are satisfied over time and the related revenue is recognized as services are rendered. The Foundation management expects that the period between when the Foundation transfers goods and services to their customers and when the customers pay for those goods and services will be one year or less. Therefore, the Foundation elected the practical expedient not to adjust the promised amount of consideration for the effects of a significant financing component.

Program Fees

The Foundation provides services to individuals, groups and entities that ultimately furthers the mission of the Foundation, yet provides reciprocal value to these groups. Services include education, engagement, and empowerment programs. When applicable, the Foundation has a right to consideration from individuals, groups and entities in an amount that corresponds directly with the value provided upon the Foundation's date of completed performance. Individuals, groups and entities simultaneously receive and consume the benefits provided by the Foundation's performance obligations throughout the each period

The San Jose Public Library Foundation

(A California Nonprofit Organization)

Notes to Financial Statements

For the Year Ended December 31, 2021

as services are provided. Therefore, the Foundation recognizes revenues as the services are provided. There were no unsatisfied performance obligations as of June 30, 2021. Revenue related to program fees totaled \$4,500 for the year ended December 31, 2021, as reflected in the statement of activities.

Administration Fees

The Foundation charges an administration fee of up to 15% of amounts contributed to administer certain grants and contributions. The fee is earned and recognized as revenue once the grant has been awarded or the contribution has been promised and all conditions have been met. Typically, the fee is included in the total amount awarded or promised as with or without donor restrictions, as appropriate, and then a reduction of the total grant or contribution is shown in the statement of activities to account for the admin fee as revenue without donor restrictions. Some agreements separately identify the administrative portion of the grant or contribution. In these scenarios, the revenue is classified as with or without donor restrictions as appropriate and the administrative fee is separately classified as without donor restrictions. Not all agreements, awards and contracts include an administration fee and each contract is evaluated to determine the appropriate accounting treatment. For the year ended December 31, 2021, the Foundation reported \$286,463 of administrative fees in unrestricted contributions.

Revenue Recognition Accounted for in Accordance with ASC 605: Topic 958 Not for Profit Entities

Grants

Grants awarded by federal, state or local agencies, or passed through to the Foundation from another donor that received similar grants, are generally considered nonreciprocal transactions restricted by the awarding agency for certain purposes. Revenue is recognized when qualified expenses are incurred and conditions under the grant agreement are met. The following summarizes the Foundation's grant revenue for the year ended December 31, 2021:

Grants	\$ 2,239,430
Administration Fees	<u>150,000</u>
Total Grants	<u>\$ 2,389,430</u>

Contribution Revenue

The Foundation receives support from individuals, local governments, corporations, groups, and other entities in support of its mission. Contribution revenue is recognized at fair value on the earlier of the receipt of cash or an unconditional promise to give. From time to time, the Foundation receives promises to give that have certain conditions such as meeting specific performance-related barriers or limiting the Foundation's discretion on use of the funds. Other contributions may have revocable features to the promises to give. Such conditional promises to give are recognized when the conditions are substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to the Foundation's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. The Foundation records donated professional services at the respective fair values of the services received, when applicable. The Foundation reported revenue of \$332,181 for in-kind contributions during the year ended December 31, 2021.

The San Jose Public Library Foundation

(A California Nonprofit Organization)

Notes to Financial Statements

For the Year Ended December 31, 2021

Advertising Costs

Advertising costs are expensed as incurred, and during the year ended December 31, 2021, the Foundation did not have any advertising costs.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Foundation is organized as a California nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as organizations described in IRC Section 501(c)(3) and Section 23701(d) of the California Code, qualifies for the charitable contribution deduction under IRC Sections 170(b)(1)(A)(vi) and (viii), and has been determined not to be private foundations under IRC Sections 509(a)(1) and (3). The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. Management has determined that the Foundation's unrelated business income tax was minimal and immaterial to the financial statements as of December 31, 2021.

Estimates

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

Concentrations

For the year ended December 31, 2021, the Foundation received grants and contributions from the City of San Jose and one corporate donor totaling 44% of total revenues.

Financial Instruments and Credit Risk

The Foundation manages deposit concentration risk by placing cash in accounts with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. As of the date of these financial statements, the Foundation has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from entities that are supportive of the Foundation's mission. Investments are made by diversified investment managers/brokers whose performance is monitored by management and the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management believes that its investment strategies are prudent for the long-term welfare of the Foundation. As of December 31, 2021 the carrying amount of the Foundation's total cash

The San Jose Public Library Foundation

(A California Nonprofit Organization)

Notes to Financial Statements

For the Year Ended December 31, 2021

in banks was \$4,737,788 and the bank balance of the Foundation's accounts with banks was \$5,239,091, which was \$4,734,677 in excess of Federal Depository Insurance Corporation (FDIC) coverage. FDIC covers up to \$250,000 per bank for each entity.

Implemented New Accounting Pronouncements

In August 2018, FASB issued Accounting Standards Update 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. Effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. This ASU did not have a significant impact on the Foundation's financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which entities expect to be entitled in exchange for those goods or services. The update also requires additional disclosure to enable readers of the financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Foundation has adopted this update, along with all subsequent amendments (collectively, "ASC 606") under the modified retrospective method. Additionally, the Foundation applied the practical expedient (i) to account for revenues with similar characteristics as a collective group rather than individually, (ii) to not adjust the transaction price for the effects of significant financing components (if any), and (iii) to not disclose the transaction price allocated to unsatisfied or partially unsatisfied performance obligations as of the end of the reporting period when the performance obligations relate to contracts with an expected duration of less than one year. The effect of the Foundation's adoption of ASC 606 is outlined below.

In June 2018, the FASB issued ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard clarified and improved current guidance by providing criteria for determining whether a nonprofit is receiving commensurate value in return for the resources transferred. The outcome of the analysis determines whether the contract or grant constitutes either a contribution or an exchange transaction (i.e., ASC 606). The guidance also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. The Foundation adopted this update on a modified prospective basis and the effects of the adoption are outlined below.

The effect of ASC 606 and ASU 2018-08 on the Foundation's financial statements were examined in conjunction with one another. Prior to the clarifications provided in ASU 2018-08, transactions with customers that benefited the general public were considered to be exchange transactions. Under the clarified guidance, such transactions constitute contributions. The Foundation reassessed the nature of its revenue-producing arrangements to ensure alignment with the definition of a contract under ASC 606 and an exchange transaction under ASU 2018-08 and determined that there were no significant or material changes required to the classification of the Foundation's revenue. The following changes in accounting

The San Jose Public Library Foundation

(A California Nonprofit Organization)

Notes to Financial Statements

For the Year Ended December 31, 2021

policies occurred, during the year ended December 31, 2021, as a result of the implementation of the ASC 606 and ASU 2018-08.

- The Foundation's revenue from government grants and contracts were previously accounted for as exchange transactions since the arrangement with the customer benefited the general public, and revenue was recognized as expenses were incurred. Under ASU 2018-08, the Foundation revenue from government grants and contracts are considered contributions because the customer does not receive commensurate value for the consideration received by the Foundation; rather, the purpose of these arrangements is for the benefit of the general public. Therefore, the Foundation management concluded that the agreements are conditional due to rights of return/release and barriers to entitlement to funds. Revenue is recognized when the condition is satisfied. Because the nature of conditions is either based on incurring qualifying expenses or satisfying a milestone or other deliverable, the pattern of revenue recognition remained consistent with previous years. Therefore, under the prospective approach, there was no material change in the revenue recognition for government grants and contracts. Under ASU 2018-08, a refundable advance is recorded when the Foundation receives assets (i.e. cash) in advance of the satisfaction of the conditions within these arrangements. As of December 31, 2021, the foundation reported a refundable advance of \$999,207 related to government grants and contracts and there were no unearned revenues in prior fiscal periods that required reclassification to refundable advances.
- Contribution revenue was accounted for under ASC Topic 958-605, *Not for Profit Entities, Revenue Recognition*, before the implementation of the new standards. With the clarifications outlined in ASU 2018-08, management reviewed existing agreements as of the effective date, as well as new agreements, and concluded that there are no material changes in revenue related to contributions.
- In addition, the Foundation elected the net asset release policy option for contributions with donor restrictions that were initially conditional contributions. As part of this election, the Foundation reports contributions restricted by donors (that were conditional in nature) as increases in net assets without donor restrictions if the conditions are met and the restrictions expire in the reporting period in which the revenue is recognized. The Foundation has not changed its policy for unconditional contributions such that the Foundation reports contributions restricted by donors (that were unconditional in nature) as increases in net assets with donor restrictions. When the donor restriction expires on an unconditional contribution, the release is reported as net assets released from donor restrictions in the statement of activities.

As part of ASU 2018-08, the Foundation implemented the standards for "contributions made" using the prospective approach. For contributions made to others that were considered to be unconditional in nature, the Foundation continues to report these contributions made as "accounts payable and accrued expenses" in the statement of financial position, as applicable. As payments are made to the recipients of those grants or contributions, the accounts payable and accrued expenses balance will be reduced. Awards made to others that are conditional in nature are not recorded as expenses until the condition has been satisfied. Payments made in advance to other organizations for which conditions have not yet been satisfied are classified as "advances" in the statement of financial position. As the conditions are satisfied, expenses are recorded in the statement of activities and the advances are reduced. As of December 31, 2021, the Foundation did not make any payments in advance.

The San Jose Public Library Foundation

(A California Nonprofit Organization)

Notes to Financial Statements

For the Year Ended December 31, 2021

Relevant Upcoming New Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (ASU 2016-02)*. ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its balance sheet for all operating leases greater than 12 months. On April 8, 2020, the FASB voted to defer the effective date of ASU 2016-02 by one additional year. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. Management does not anticipate this ASU will have a significant impact on the Foundation's financial statements.

In January 2018, FASB issued Accounting Standards Update (ASU) 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*. ASU 2018-01 allows for an entity to elect an optional transition practical expedient to not evaluate under Topic 842 land easements that exist or expired before the entity's adoption of Topic 842 and that were not previously accounted for as leases under Topic 840. ASU 2018-01 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. Management does not anticipate this ASU will have a significant impact on the Foundation's financial statements.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit Museums through enhancements to presentation and disclosure. ASU No. 2020-07 was issued to address certain stakeholders' concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by not-for-profits, as well as the amount of those contributions used in an entity's programs and other activities. The standard is effective for annual reporting periods beginning after June 15, 2021 and should be applied on a retrospective basis. Management does not anticipate this ASU will have a significant impact on the Foundation's financial statements.

Subsequent Events

Management has evaluated all subsequent events from the statement of financial position date of December 31, 2021, through the date the financial statements were available to be issued, August 19, 2022. Beginning in March 2020, the United States economy began suffering adverse effects from the COVID 19 Virus Crisis ("CV19 Crisis"). As of the date of issuance of the financial statements, the Organization had not suffered a material adverse impact from the CV19 Crisis. However, the future impact of the CV19 Crisis cannot be reasonably estimated.

The San Jose Public Library Foundation

(A California Nonprofit Organization)

Notes to Financial Statements

For the Year Ended December 31, 2021

NOTE 2 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	\$ 2,577,535
Investments	792,082
Promises to give	<u>26,870</u>
Total	<u>\$ 3,396,487</u>

As part of its liquidity management plan, the foundation invests cash with a broker. Endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments are restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

NOTE 3 - INVESTMENTS

Management is required to make certain estimates in the preparation of the financial statements. Among those significant estimates is the valuation of investments without readily determinable fair values, if applicable. The Foundation did not have investments without readily determinable fair values as of December 31, 2021.

Risk Factors

Liquidity risk

Liquidity risk represents the risk that the Foundation may not be able to rapidly adjust the size of its portfolio holdings in times of high volatility and financial stress at a reasonable price. If the Foundation were compelled to dispose of an illiquid investment at an inopportune time, the result may be a sale at a substantial discount to fair value. The Foundation utilizes brokers to invest in mutual funds that hold short and long-term stocks and bonds. Under adverse market or economic conditions, the secondary market for certain of these alternative investments could further contract. As a result, the Foundation could find it more difficult to sell these securities or may only be able to sell these securities at amounts lower than if such securities were more widely traded.

Currency and foreign exchange risk

The Foundation did not hold investments denominated in currencies other than the U.S. dollar.

Interest rate and credit risk

The Foundation's investment portfolio is subject to interest rate and credit risks for certain securities whose valuation would be impacted by changes in interest rates. The portfolio is also subject to the risk of the issuer of the security becoming unable to pay interest or repay principal when it is due.

Market price risk

The value of securities held by the Foundation may decline in response to certain economic events, including those events impacting entities whose securities are owned and included in the investment portfolio. Events impacting valuation may include (but are not limited to) economic changes, market fluctuations, regulatory changes, global and political instability, and currency, interest rate, and

The San Jose Public Library Foundation

(A California Nonprofit Organization)

Notes to Financial Statements

For the Year Ended December 31, 2021

commodity price fluctuations. The Foundation attempts to manage this risk through diversification, ongoing due diligence of fund managers, and monitoring of relevant economic conditions.

Concentration risk

Investments were managed by a broker and were classified as summarized in Note 4.

NOTE 4 - FAIR VALUE MEASUREMENTS AND DISCLOSURES

The Foundation reports certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. 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 the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1

Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2

Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3

Unobservable inputs for the asset or liability. In these situations, the Foundation develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Foundation's assessment of the quality, risk, or liquidity profile of the asset or liability. The Foundation invests securities that are traded in the financial markets. Those securities are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions, and are classified within Level 2.

The San Jose Public Library Foundation

(A California Nonprofit Organization)

Notes to Financial Statements

For the Year Ended December 31, 2021

The following table presents assets and liabilities measured at fair value on a recurring basis as of December 31, 2021:

Description	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Un-observable Inputs (Level 3)
Investments:				
Schwab variable share mutual funds	\$ 2,273,001	\$ 2,273,001	\$ -	\$ -
Schwab broad high yield corporate bond ETF	1,011,204	1,011,204	-	-
Schwab emerging ETF	134,182	134,182	-	-
Schwab US Treasury ETF	1,778,676	1,778,676	-	-
Schwab US broad market ETF	267,356	267,356	-	-
Schwab US bond market ETF	146,778	146,778	-	-
Schwab Vanguard developed markets ETF	193,065	193,065	-	-
Schwab corporate bond emerging ETF	38,842	38,842	-	-
Schwab Vanguard emerging market ETF	29,098	29,098	-	-
Schwab Vanguard international bond ETF	165,800	165,800	-	-
Schwab bank sweep at cost	24,949	-	-	-
CNote Investment	250,021	250,021	-	-
Total investments	6,312,972	6,288,023	-	-
Less: restricted endowment	(210,107)	(210,107)	-	-
Total investments, net of endowments	\$ 6,102,865	\$ 6,077,916	\$ -	\$ -

NOTE 5 - ENDOWMENT

The purpose of the Foundation's Endowment Fund (the Fund) is to support children's programs, resources, and materials at the Almaden Branch of the San Jose Public Library. Children are defined as being age birth to 14 years old. All direct children's program costs, including materials, supplies, equipment, program personnel, capital projects, renovations, communications, may be paid by the Fund.

The Foundation's Board of Directors has interpreted the California Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At December 31, 2021 there were no such donor stipulations. As a result of this interpretation, the foundation retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts donated to the Endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

The San Jose Public Library Foundation

(A California Nonprofit Organization)

Notes to Financial Statements

For the Year Ended December 31, 2021

The Foundation 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 fund
- 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 organization
- The investment policies of the organization

As of December 31, 2021, the Foundation had the following endowment composition:

Endowment beginning balance	\$	110,702
Contributions		97,031
Investment return, net		7,374
Distribution of endowment		<u>(5,000)</u>
Endowment ending balance	\$	<u>210,107</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2021, funds with original gift values of \$194,061 and fair values of \$210,107 were reported in net assets with donor restrictions. There were no funds with deficiencies and no recoveries of deficiencies caused by market fluctuations.

Investment and Spending Policies

The Foundation has adopted investment and spending policies for the Endowment that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the Endowment assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the Endowment investments. The Endowment Fund investment strategy has been designed to achieve returns sufficient to cover reasonable spending plus inflation, while minimizing volatility. It is acknowledged that volatility is inherent in any long-term growth strategy. Short-term volatility will be tolerated to the extent it is consistent with the volatility of a comparable market index. A significant portion of the funds will be invested to seek growth of principal over time. An investment horizon of at least 10 years will be used to compensate for the volatility and market cycles of this long-term portfolio. It is recognized that equity investments have provided premium returns and growth over the long term compared with fixed income investments, although fixed income investments typically provide more stable value and lower volatility.

It is the Foundation's intent to spend a portion of the Endowment Fund's fair value each year, with the balance to remain invested in accordance with the Fund's investment policy. The target annual spending rate is up to 5% of the trailing 12-quarter moving average based on quarter-end fair values (generally, market values). The 12-quarter average reduces the impact on spending caused by market volatility. This calculation is to be performed annually using the 12 quarters ending September 30 of the current year to establish the projected amount for the subsequent year. Because each sub-fund within the overall

The San Jose Public Library Foundation

(A California Nonprofit Organization)

Notes to Financial Statements

For the Year Ended December 31, 2021

Endowment Fund will have its own unique investment performance based on the timing of its cash flows, the spending calculation will be performed for each individual sub-fund within the overall Endowment Fund. An evaluation of actual spending year to date will be done prior to the literal transfer of funds for the current year, typically in the July-August timeframe. The amount subsequently transferred will not exceed the 5% authorized spend rate. The annual portfolio rebalancing will typically occur at this time as well. The Finance Committee of the Foundation may vary from this timing based on actual and projected spending as well as market conditions.

Changes in Endowment net assets for the year ended December 31, 2021 were as follows:

Restricted Endowments:

Original donor restricted contribution and amounts required to be maintained in perpetuity by donor	\$ 199,061
Accumulated investment gains, net	15,854
Distributions	<u>(5,000)</u>
Total Endowment Net Assets	<u>\$ 209,915</u>

NOTE 6 - PROMISES TO GIVE

Unconditional promises to give of \$158,370 was estimated to be collected within one year of December 31, 2021. Therefore, no discounts have been applied to these balances.

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of December 31, 2021:

Net Assets with Donor Restrictions

Endowments:	
Restricted by donors for children's programs, resources and materials at the Almaden Branch of the San Jose Public Library	\$ 209,915
Subject to Expenditure for Specified Purpose:	
Educate	1,535,555
Engage	774,351
Empower	<u>5,312,382</u>
Total Net Assets with Donor Restrictions	<u>\$ 7,832,203</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or other events specified by the donors as follows for the year ended December 31, 2021:

Net Assets Released from Restrictions

Endowment Distributions	\$ 5,000
Subject to Expenditure for Specified Purpose:	
Educate	1,396,584
Engage	129,107
Empower	<u>1,336,090</u>
Total Net Assets Released from Restrictions	<u>\$ 2,866,781</u>

The San Jose Public Library Foundation

(A California Nonprofit Organization)

Notes to Financial Statements

For the Year Ended December 31, 2021

NOTE 8 - 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 up to a certain percentage. 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 \$13,161 for the year ended December 31, 2021.

NOTE 9 - U.S. SMALL BUSINESS ADMINISTRATION PAYCHECK PROTECTION PROGRAM LOAN (SBA LOAN)

In May 2020, the Foundation was issued a \$41,696 U.S. Small Business Administration loan with Kabbage, an American Express Company, bearing a 1% fixed interest rate and maturing in May 2022. This loan was issued under the Paycheck Protection Program and the provisions of Section 1106 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The entire loan was forgiven during the year.

***Federal Award
Compliance Section***

The San Jose Public Library Foundation
 (A California Nonprofit Organization)
 Schedule of Expenditures of Federal Awards
 For the Year Ended December 31, 2021

<u>Program Name</u>		<u>Federal Catalog Number</u>	<u>Pass-through Identifying Number</u>	<u>Program Expenditures</u>
US Department of Treasury:				
Passed through the City of San Jose				
Coronavirus State and Local Fiscal Recovery Funds	(1)	21.027	217F/V/Z	<u>\$ 1,140,649</u>
Total Federal Programs				<u><u>\$ 1,140,649</u></u>

(1) Audited as major program

There were no federal grants passed-through to subrecipients during the fiscal year

The San Jose Public Library Foundation

(A California Nonprofit Organization)

Notes to Federal Awards Compliance Section

For the Fiscal Year Ended December 31, 2021

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of The San Jose Public Library Foundation (the Foundation) under programs of the federal government for the year ended June 30, 2021. The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Regulations, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Foundation, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Foundation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the OMB Compliance Supplement, *Cost Principles for Nonprofit Foundations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Foundation has elected not to use the 10 percent de-minimis indirect cost rate as allowed under Uniform Guidance.

NOTE 3 - RELATIONSHIP TO THE FINANCIAL STATEMENTS

The amounts reported in the accompanying schedule agree, in all material respects, to amounts reported within the Foundation's financial statements. Federal award revenues are reported principally in the Foundation's financial statements as grant revenues.

NOTE 4 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree or can be reconciled with the amounts reported or to be reported in the federal financial reports.

NOTE 5 - PASS-THROUGH ENTITIES' IDENTIFYING NUMBER

When federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity. When no identifying number is shown, the Foundation has determined that no identifying number is assigned for the program or the Foundation was unable to obtain an identifying number from the pass-through entity.

***Other Independent
Auditor's Reports***



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of The San Jose Public Library Foundation (the Foundation), 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 and have issued our report thereon dated August 19, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Foundation's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct



and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C & A LLP

August 19, 2022
Morgan Hill, California



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited The San Jose Public Library Foundation's (the Foundation) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Foundation's major federal programs for the year ended December 31, 2021. The Foundation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, The San Jose Public Library Foundation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major federal programs

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of The San Jose Public Library Foundation and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal programs. Our audit does not provide a legal determination of The San Jose Public Library Foundation's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Foundation's federal programs.



Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on The San Jose Public Library Foundation's compliance based on our audit. 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 GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about The San Jose Public Library Foundation's compliance with the requirements of each major federal programs.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 San Jose Public Library Foundation's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of The San Jose Public Library Foundation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of The San Jose Public Library Foundation's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.



A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

C & A LLP

August 19, 2022
Morgan Hill, California

Findings and Recommendations

The San Jose Public Library Foundation

(A California Nonprofit Organization)

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended December 31, 2021

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weaknesses?

_____ Yes x No

Significant deficiencies identified not

considered to be material weaknesses?

_____ Yes x None Reported

Noncompliance material to financial statements noted?

_____ Yes x No

Federal Awards

Internal control over major programs:

Material weaknesses?

_____ Yes x No

Significant deficiencies identified not

considered to be material weaknesses?

_____ Yes x None Reported

Type of auditor's report issued on compliance
over major programs:

Unmodified

Any audit findings disclosed that are required
to be reported in accordance with 2 CFR 200.516(a)

_____ Yes x No

Identification of major programs:

CFDA Numbers

21.027

Name of Federal Program

Coronavirus State/Local Fiscal Recovery Funds

Dollar threshold used to distinguish between
Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

_____ Yes x No

Section II - Financial Statement Findings

No findings noted.

Section III - Federal Award Findings and Questioned Costs

No findings noted.

The San Jose Public Library Foundation
(A California Nonprofit Organization)
Status of Prior Year Findings and Recommendations
For the Fiscal Year Ended December 31, 2021

No findings noted. The Foundation was not required to undergo a federal compliance audit in the prior year.