

**THE SAN JOSE PUBLIC LIBRARY FOUNDATION**

**FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2017**

**AND**

**INDEPENDENT AUDITORS' REPORT**



**THE 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, 2017, 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.



## **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, 2017, 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 2016 financial statements, and our report dated October 25, 2017, 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, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Adjustments to Prior Period Financial Statements**

As disclosed in Note 11 to the financial statements, certain errors resulting in an understatement of amounts previously reported in temporarily restricted net assets and a corresponding overstatement of amounts previously reported in unrestricted net assets for the year ended December 31, 2016, were discovered by management of the Foundation during the year. Accordingly, an adjustment was made to net assets as of December 31, 2016 to correct the error and net asset amounts have been restated in the 2016 financial statements now presented. Our opinion was not modified with respect to this matter.

*Johanson & Yau Accountancy Corporation*

San Jose, California  
July 12, 2018

**THE SAN JOSE PUBLIC LIBRARY FOUNDATION**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2017**  
**(With Comparative Totals as of December 31, 2016)**

**ASSETS**

	<b>2017</b>	<b>2016</b> <b>Restated</b>
Current assets		
Cash and cash equivalents	\$ 558,460	\$ 377,220
Grants receivable	200,000	104,492
Pledges receivable, net - Note 2	31,249	22,545
Prepaid expenses	1,788	1,703
Total current assets	791,497	505,960
Long-term pledges receivable, net - Note 2	-	1,594
Property and equipment, net of accumulated depreciation - Note 3	1,578	2,479
	<b>\$ 793,075</b>	<b>\$ 510,033</b>

**LIABILITIES AND NET ASSETS**

Current liabilities		
Accounts payable	\$ 9,420	\$ 20,142
Grants payable	10,000	-
Accrued expenses	7,848	11,490
Total current liabilities	27,268	31,632
Net assets		
Unrestricted	255,293	172,316
Temporarily restricted - Note 7	510,514	306,085
	765,807	478,401
	<b>\$ 793,075</b>	<b>\$ 510,033</b>

See accompanying notes to financial statements

**THE SAN JOSE PUBLIC LIBRARY FOUNDATION**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2017**  
**(With Comparative Totals for the Year Ended December 31, 2016)**

	<b>2017</b>			<b>2016</b>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Restated Total</u>
Support and revenue				
Public support	\$ 293,618	\$ 327,698	\$ 621,316	\$ 567,903
In-kind contributions - Note 6	10,020	27,577	37,597	25,020
Investment income - Note 4	475	-	475	800
Net assets released from restrictions	150,846	(150,846)	-	-
Total support and revenue	<u>454,959</u>	<u>204,429</u>	<u>659,388</u>	<u>593,723</u>
Expenses				
Program expenses	172,765	-	172,765	455,373
Supporting expenses				
Management and general	50,876	-	50,876	59,075
Fundraising	148,341	-	148,341	237,264
Total expenses	<u>371,982</u>	<u>-</u>	<u>371,982</u>	<u>751,712</u>
Change in net assets	82,977	204,429	287,406	(157,989)
Net assets, beginning of year, as previously stated	212,885	265,516	478,401	636,390
Prior period adjustments	(40,569)	40,569	-	-
Net assets, beginning of the year, as restated	<u>172,316</u>	<u>306,085</u>	<u>478,401</u>	<u>636,390</u>
Net assets, end of year	<u>\$ 255,293</u>	<u>\$ 510,514</u>	<u>\$ 765,807</u>	<u>\$ 478,401</u>

See accompanying notes to financial statements

**THE SAN JOSE PUBLIC LIBRARY FOUNDATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2017**  
**(With Comparative Totals for the Year Ended December 31, 2016)**

	2017				2016
	Program Services	Management & General	Fundraising	Total	Restated Total
Salaries	\$ 21,226	\$ 11,939	\$ 99,495	\$ 132,660	\$ 190,851
Payroll taxes	1,767	994	8,281	11,042	14,572
Employee benefits	619	348	2,901	3,868	8,234
Total salaries and related expenses	23,612	13,281	110,677	147,570	213,657
Grants to library	115,886	-	-	115,886	315,200
Literacy events	-	-	-	-	86,301
Outside services	2,550	22,398	1,912	26,860	36,061
Donor appreciation	-	-	2,198	2,198	2,437
In-kind expenses	29,180	902	7,515	37,597	25,020
Postage	-	-	2,721	2,721	6,071
Travel	405	904	1,898	3,207	2,200
Dues, fees and other charges	789	738	4,745	6,272	11,345
Conferences and meetings	-	8,001	-	8,001	1,033
Insurance	301	169	1,412	1,882	793
Printing	-	-	15,066	15,066	40,550
Website	-	-	-	-	7,067
Supplies	-	3,557	-	3,557	3,445
Bad debt	-	-	-	-	67
Rent	42	24	197	263	240
Depreciation	-	902	-	902	225
Total functional expenses	<u>\$ 172,765</u>	<u>\$ 50,876</u>	<u>\$ 148,341</u>	<u>\$ 371,982</u>	<u>\$ 751,712</u>

See accompanying notes to financial statements

**THE SAN JOSE PUBLIC LIBRARY FOUNDATION**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2017**  
**(With Comparative Totals for the Year Ended December 31, 2016)**

	<b>2017</b>	<b>2016</b> <b>Restated</b>
	<hr/>	<hr/>
Cash flow from operating activities		
Change in net assets	\$ 287,406	\$ (157,989)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities		
Depreciation	902	225
Net realized and unrealized loss on investments	255	560
Receipt of donated securities	(22,745)	(13,329)
(Increase) decrease in assets		
Grants receivable	(95,508)	(29,492)
Pledges receivable	(7,110)	27,826
Prepaid expenses	(85)	25,499
Increase (decrease) in liabilities		
Accounts payable	(10,722)	(6,099)
Grants payable	10,000	(92,800)
Accrued expenses	(3,642)	7,692
	<hr/>	<hr/>
Net cash provided by (used for) operating activities	158,751	(237,907)
	<hr/>	<hr/>
Cash flows from investing activities		
Purchase of property and equipment	-	(2,704)
Proceeds from sales of investments	22,489	159,031
	<hr/>	<hr/>
Net cash provided by investing activities	22,489	156,327
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	181,240	(81,580)
	<hr/>	<hr/>
Cash and cash equivalents, beginning of year	377,220	458,800
	<hr/>	<hr/>
Cash and cash equivalents, end of year	\$ 558,460	\$ 377,220
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to financial statements



**THE SAN JOSE PUBLIC LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**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.

Subsequent to year-end, the Foundation also became the fiscal agent responsible for administering the funding of the SJ Learns program authorized by the City Manager of the City of San Jose. The Foundation provides services as the fiscal agent at an administered rate not to exceed 15% of the total amount available for program expenditure. See Note 10.

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, 2017**

**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 receives and immediately sells donated securities 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.

Fair Value Measurements - The Foundation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures of investments in marketable securities that are classified as available-for-sale on a recurring basis. The recorded values of cash, accounts receivable and accounts payable approximate their fair values based on their short-term nature.

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.

Reclassifications - Certain reclassifications have been made to the 2016 financial statement presentation to conform to the 2017 presentation. There was no effect on change in net assets.

**THE SAN JOSE PUBLIC LIBRARY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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, 2016, from which the summarized information was obtained.

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

Contributions from three major donors during the year ended December 31, 2017 accounted for 61% of the Foundation's contributed income. At December 31, 2017, 86% of the Foundation's grants and pledges receivable were from two donors.

**NOTE 2 - PLEDGES RECEIVABLE**

At December 31, 2017, pledges receivable are as follows:

Pledges due in less than one year	\$ 31,249
Allowance on current pledges receivable	<u>-</u>
Current pledges receivable, net	<u>\$ 31,249</u>

**NOTE 3 - PROPERTY AND EQUIPMENT**

Following is a summary of property and equipment for the year ended December 31, 2017:

Computer equipment	\$ 2,704
Accumulated depreciation	<u>(1,126)</u>
	<u>\$ 1,578</u>

Depreciation expense for the year ended December 31, 2017 was \$902.

**NOTE 4 - INVESTMENTS**

Earnings on investments and cash equivalents were as follows for the year ended December 31, 2017:

Interest and dividends	\$ 905
Realized loss	(255)
Investment fees	<u>(175)</u>
	<u>\$ 475</u>

The Foundation sold all donated securities in 2017 and had no investments as of December 31, 2017.

**THE SAN JOSE PUBLIC LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 5 - 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 Foundation's 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 6 - IN-KIND CONTRIBUTIONS**

The estimated fair market value of the facilities and supplies received are recorded as contributions. During the year ended December 31, 2017, the following in-kind contributions were received by the Foundation:

Facilities and supplies	\$ 10,020
Program services and supplies	<u>27,577</u>
	<u>\$ 37,597</u>

**NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of the following at December 31, 2017:

Library funding	\$ 384,183
Reading activities	<u>126,331</u>
	<u>\$ 510,514</u>

**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 \$3,063 for the year ended December 31, 2017.

**NOTE 9 - RELATED PARTY TRANSACTIONS**

Donations from Foundation board members totaled \$8,000 for the year ended December 31, 2017.

**THE SAN JOSE PUBLIC LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 10 - SUBSEQUENT EVENTS**

In May 2018, the Foundation entered into a Memorandum of Understanding (MOU) with the City of San Jose Public Library Department (City) in order to administer the funding of the City's SJ Learns education initiative aimed to bolster academic achievement by expanding promising and innovative after-school programs for San Jose students in kindergarten through third grade. The MOU is effective May 1, 2018 and continues through June 30, 2019. The Foundation is to act as the fiscal agent for the City to efficiently and effectively administer funding and evaluation of the programs at an administrative rate not to exceed 15% of the total amount available for program expenditure, based on an anticipated total fund of \$1,000,000. The Foundation received these funds in May 2018. Subsequent events were evaluated through July 12, 2018, the date the financial statements were available to be issued.

**NOTE 11 - RESTATEMENT**

Adjustments have been made to the 2016 financial statements to account for donor-designated support that was improperly reported as unrestricted support. The effect of this change increases temporarily restricted net assets by \$40,569 and decreases unrestricted net assets by the same amount as of December 31, 2016. The restatement in total had a zero-net effect on beginning 2016 net assets.