

**City of San Diego**

**AUDIT REPORT**

***CITY OVERSIGHT OF THE  
SAN DIEGO PUBLIC LIBRARY  
FOUNDATION***

**February 19, 2008**

**Internal Audit  
Eduardo Luna, CIA, CGFM, Internal Auditor**



## THE CITY OF SAN DIEGO

February 19, 2008

Jay Goldstone, Chief Operating Officer  
City of San Diego  
202 C Street  
San Diego, CA 92101

Transmitted herewith is our audit report regarding the City's oversight of the San Diego Public Library Foundation. Internal Audit staff members that participated in the preparation of this report are Kyle Elser and Judy Zellers.

Included as Attachment B is management's response to our audit report as well as other information they have provided. We would like to thank the City Library and San Diego Public Library Foundation staff for the assistance they extended during our review. All of their valuable time and efforts spent on providing us information is greatly appreciated.

Respectfully submitted,

Eduardo Luna  
Internal Auditor

cc: Honorable Audit Committee Members  
Elmer Heap, Deputy Chief Operating Officer for Community Services  
Anna Tatar, City Librarian  
Jay Hill, Library Development Executive Director



INTERNAL AUDIT  
600 B STREET, SUITE 1440 • SAN DIEGO, CA 92101  
PHONE 619 533-5281, FAX 619 533-5214

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## **AUDIT REPORT**

**Anna Tatar  
City Librarian  
820 E Street  
San Diego, CA 92101**

**Subject:     The City Can Enhance Its Oversight of the San Diego Public Library  
Foundation By Strengthening Internal Controls**

### **Executive Summary**

Based on our audit work performed, we found that the City could improve its oversight of the Memorandum of Understanding (MOU) with the San Diego Public Library Foundation (SDPLF) by improving internal controls related to contract compliance, contract reporting and contract monitoring. Specifically, we identified the following issues:

- The City does not have a formal policy with standardized procedures in place to require the SDPLF to report on their performance and contract compliance to the Chief Operating Officer and City Comptroller annually.
- SDPLF administration has not always retained records necessary to clearly document contract compliance and proper authorization of expenditures of City contributions to the SDPLF. A process has not been developed to revise and clarify in writing the terms of the SDPLF MOU that are unclear and subject to different interpretations.
- SDPLF administration has not always complied with regulations governing the solicitation of donations. Some processes which were permissible when donations were directly deposited with the City are now subject to different regulations.
- \$88,995 paid from City Library funds for SDPLF fund raising expenses was not consistent with the terms of the MOU.
- SDPLF administration did not have a written policy in place to ensure complete disclosure of financial information was made to their independent accountants.

Generally, we made recommendations to achieve the following:

- To take corrective actions to comply with requirements of the MOU and file a modified MOU with the City Clerk prior to expending any City Transient Occupancy Tax (TOT) funds.
- To ensure compliance with laws, regulations and disclosure requirements governing soliciting and financial reporting of donations.
- To enhance reporting to independent City management to ensure SDPLF practices are consistent with City objectives and to better evaluate performance.
- To improve internal controls over assets and data.

## **Background**

In 2001, the City Council authorized the City Manager to negotiate and execute a MOU with the SDPLF, a nonprofit corporation, governed by a Board of Directors. The SDPLF was chartered in 2002 to support the San Diego Public Library and to encourage private philanthropy for the City's \$312 million program to build and rehabilitate a new library and 23 branch libraries within the City of San Diego.

As part of the MOU, the City agreed to provide the SDPLF a contribution of \$1 million.<sup>1</sup> The City provided this funding to 1) allow the SDPLF to begin operations; 2) support the SDPLF's fundraising efforts; 3) reflect that the SDPLF's money is a supplement to traditional sources of funding for the library system; and 4) provide evidence of the City's commitment to a world class library.

As of May 2007, approximately \$858,000 of the City's original \$1 million contribution to the Foundation has been expended. The fiscal year 2006 remaining balance of the City's contributions is approximately \$142,000. Based on unaudited financial data, as of May 2007 approximately \$1.5 million is being held in trust by the SDPLF for the benefit of the San Diego Public Library System.

The MOU contract governs how the SDPLF may use the City's contributions to pay for certain foundation expenses. The SDPLF is required to submit to the City a written proposal for use of the City's contribution for the SDPLF's expenses. The proposal is supposed to describe in detail the anticipated use of the City's contribution. The City Manager is supposed to approve the spending proposal. In addition, the MOU also establishes that the SDPLF expenses shall be first paid from Campaign funds and any interest accruing, if available; second from the City's contribution in an amount not to exceed \$150,000.

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<sup>1</sup>The City's \$1 million contribution was made from the Main Library Facility Fund, which is funded by Transient Occupancy Tax monies.

Currently, a City employee oversees the daily SDPLF activities. In July 2006 (fiscal year 2007), the City Library Development Executive Director, in addition to City responsibilities, began supervising SDPLF daily operations. A Deputy City Manager / Deputy Chief, not the City Librarian, has formal oversight of the contractual agreement with the SDPLF. Due to the City Librarian's knowledge of the SDPLF history and current position as an Ex-officio Board member, we request that the Librarian coordinate the responses to the findings.

### **Audit Objective, Scope, and Methodology**

The purpose of our audit was to evaluate the SDPLF's internal controls and accountability for donations as of May 2007 in response to confidential hotline complaints. In addition, we performed a follow-up on the SDPLF's prior audit report issued December 21, 2005 to determine if any previous non-compliance issues continued to occur during fiscal years 2006 and 2007.

The following audit procedures were used to achieve the audit objectives:

- Reviewed the confidential hotline complaints and performed audit procedures necessary to determine if any were valid.
- Obtained an understanding of the Foundation's current policies and practices.
- Reviewed laws and regulations pertaining to donations.
- Reviewed SDPLF prior audit report findings and recommendations and performed follow-up procedures.
- Tested the organization's compliance with MOU terms.
- Assessed the SDPLF's internal control practices related to processing contributions.
- Reviewed SDPLF expenditures paid from City (TOT) contributions.
- Analyzed SDPLF financial statements and related data.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **AUDIT RESULTS**

Based on our audit work performed, we found that the City could improve its oversight of the MOU with the SDPLF by improving internal controls related to contract compliance, contract reporting and contract monitoring, and no evidence substantiating hotline allegations of fraudulent activity was found. Specifically, we identified the following issues.

### **Written reports that document SDPLF performance would improve oversight.**

The MOU requires that the SDPLF shall regularly, but no less than quarterly provide detailed reports of earnings and expenditures of all campaign funds and City Contributions. Although the Library Development Executive Director has prepared written reports on contributions to the Library, the City does not have a formal policy with standardized procedures in place to require the SDPLF to report on their performance and contract compliance to the Chief Operating Officer and City Comptroller. Reporting is necessary to communicate to City management whether SDPLF fundraising procedures operate in a manner consistent with the City objectives, and in compliance with the MOU and applicable laws and regulations.

Requiring standardized reporting to City management independent of the Library, such as the Chief Operating Officer and the City Comptroller, would strengthen City oversight of the SDPLF and improve the City's ability to measure the Foundation's performance and determine whether it is necessary to disclose SDPLF assets in the City's financial reports.

### **Audit Recommendations:**

- 1. Establish a City policy requiring the Library Development Executive Director report annually on SDPLF performance, compliance with the MOU, and compliance with applicable laws and regulations to the Chief Operating Officer and City Comptroller. Ensure this report to City management is sufficient to confirm the policies and practices related to Library donations are consistent with City objectives.**
- 2. Include a comprehensive, comparative analysis of donations and related expenses of the SDPLF and all other City Library donations from all sources in the annual report to City management.**

**SDPLF administration has not always retained records necessary to clearly document contract compliance and proper authorization of expenditures of City contributions to the SDPLF.**

The SDPLF is required to have an annual independent audit of its books and records for compliance with the requirements of the MOU. The SDPLF is required to submit this audit to the City. We found that the scope of the annual independent audits of the

SDPLF in 2004, 2005, and 2006 did not include a review of compliance with MOU terms. This was also a prior audit finding. The SDPLF believes that the MOU requires only a financial audit, as opposed to a compliance audit with the MOU. In our opinion, the SDPLF needs to ensure the financial audit covers compliance with the requirements of the MOU.

We also found that the SDPLF has not always documented compliance with insurance requirements and the proper authorization for spending City contributions. MOU Section 1.6 requires that the SDPLF obtain Commercial Crime Insurance Coverage in the amount not less than the amount of funds in the City Contribution and Donation accounts (referred to as Holding accounts in the MOU), but in any event not less than the City's contribution of \$1 million. The MOU also states that the City is to be added as an additional insured. In 2006, the SDPLF assets were approximately \$300,000; therefore, the crime coverage was limited to asset value. In 2007, the contribution balances (unaudited) exceeded \$1 million. The actual limit of crime coverage insurance on the policy was \$300,000 and the named insured was the San Diego Public Library, not the SDPLF. The current crime coverage does not comply with the requirements of the MOU. During our audit, the named insured was corrected to the San Diego Public Library Foundation. The Library advised that the City Risk Management had reviewed the insurance policy. Also, we were advised by the insurance agent that the crime coverage insurance could not be increased until audited financial statements substantiating the funds held at June 2007 were provided to the insurance carrier.

MOU Section 1.12.1.1 requires the SDPLF obtain City approval prior to expending the City's contributions for fundraising. The MOU authorized the Foundation to spend the City's funding for certain pre-approved operating expenses in an amount not to exceed \$150,000. A previous audit report issued by the City's Audit Division dated December 21, 2005 found that the \$150,000 expenditure limit specified in the MOU was exceeded by approximately \$562,000 as of May 31, 2005. Although these expenditures received prior approval by a former Deputy City Manager, the report opined that there was no evidence the MOU was amended. On November 8, 2005, the City Attorney's office issued an opinion finding extrinsic evidence to refute the Section limiting fund raising expenses to \$150,000. In our opinion, there should be a process in place to clarify the MOU language and clear documentation of the concurrence of the SDPLF and the Chief Operating Officer, or designee, on the terms, such as a memo from the COO to the SDPLF.

SDPLF Fiscal Year 2006 actual expenditures of City contributions were approximately \$137,000. Documentation was provided for approval of \$68,958 as of March 10, 2006. The remaining \$83,938 was "to be approved when certificate of insurance is received." The April 2006 SDPLF Board minutes noted the insurance policy was delivered to the City March 17, 2006; however, final written approval was not on file at the SDPLF. Of the requested \$83,938, approximately \$68,000 was subsequently expended. Documentation of City approvals should be clear and documentation retained by the SDPLF.



### **Audit Recommendations:**

- 3. Either engage a CPA firm to perform additional procedures annually to test and report on SDPLF compliance with the terms of the MOU or clarify the terms of the MOU.**
- 4. Ensure insurance for Commercial Crime Coverage complies with the terms of the MOU or revise the insurance requirements of the MOU with terms that still provide adequate coverage to protect donated assets.**
- 5. Revise and clarify the terms of the SDPLF MOU that are unclear and subject to different interpretations.**

### **Not all SDPLF solicitation materials comply with all applicable rules and regulations.**

We reviewed SDPLF solicitation materials, including samples of mail campaign and water bill inserts for compliance with disclosure rules. We found that the solicitation materials did not:

- Disclose that audited financial statements are available at the SDPLF;
- Provide donors with donation options to identify how donations will be used;
- Indicate that the SDPLF is a non profit corporation; and
- State that the SDPLF and the Public Library are separate entities.

Prior to fiscal year 2007, donations were deposited directly into City accounts. Currently, donations are deposited into the SDPLF, a public benefit corporation which is governed by City, State and County regulations. The solicitation language must be clear to avoid any donor misperceptions related to the recipient of donations. This change requires additional disclosure when soliciting donations.

The SDPLF should follow the following State, County, and City regulations governing the solicitation and processing of donations.

- I. Under the California State Code Section 17510, the purpose of disclosure is that the person being solicited will know what portion is used for charitable purposes (versus administrative and fund raising expenses).
- II. County Code Section 21.516 requires charities to either disclose the percentage used for direct fund raising expenses or state that audited financial statements may be obtained at the organization's address.

- III. Council policy 100-08 states that donations eligible for the Equipment match must be specified by the donor. If possible, at the time of a donation, the donor will be asked to indicate whether the donation is spent on books or equipment.

**Audit Recommendations:**

6. **Revise the solicitation material to disclose fund raising expenses as a percent of donations or state financial statements are on file at the SDPLF address.**
7. **Revise the solicitation materials to permit the donors to indicate how their donations should be utilized or if the donation is unrestricted.**
8. **Ensure donors electing to have monies deposited directly at the City shall make checks payable to the City Treasurer with a memo note referencing Library donation.**
9. **Disclose that the SDPLF is a non profit corporation on written solicitations for donations.**

**Some SDPLF fundraising expenses paid from City funds were not consistent with the terms of the MOU.**

During fiscal year 2007, \$1,839,530 in donations<sup>2</sup> were deposited at the SDPLF. Associated fund raising expenses totaling \$145,795 for SDPLF donation mailers were funded from the City Library Trust (\$56,800) and City Library General Fund (\$88,995). The MOU allows the use of City funds to pay for SDPLF staff assistance and office space; however, the MOU indicates that the City shall have no other obligation to pay SDPLF expenses. City Council authorization is required before additional City resources can be used for Foundation purposes. However, we were provided documentation showing that the \$56,800 paid from the Library Trust came from donations intended to be used for fundraising activities.

Library staff was unaware that the policy changes related to depositing donations at the SDPLF versus the City also impacted approval requirements for fundraising expenses. City fundraising costs required only budget approval; SDPLF fundraising costs require specific Council authorization.

**Audit Recommendations:**

10. **Request the SDPLF reimburse the City Library General Fund for fundraising expenses of \$88,995.**
11. **Ensure the Foundation's financial statements disclose all fund raising expenses.**

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<sup>2</sup> The source of donation documentation was unaudited SDPLF accounting records.

**A policy is not in place at the SDPLF to ensure disclosures related to SDPLF's financial statements are complete.**

Based on a limited review of the audited financial statements, we found in some instances that the financial statements did not properly disclose or document issues related to pledges and liabilities. The SDPLF 2005 audited financial statement note 4 disclosed two pledge commitments to the SDPLF. In 2006, the pledges were excluded from the financial statement notes. Financial Accounting Standard Number 116 requires verifiable documents before disclosing promises to give. Although there is a written statement from one donor, it implies additional terms are necessary in order to make the promise binding. We requested documentation to support the pledges, but the Library staff was unable to provide information to support the pledges.

We found another instance of inadequate disclosure practices in the financial statements related to past year liabilities. The SDPLF used City contributions to pay for fiscal year 2006 administrative expenses, including \$72,000 paid to a consultant for prior year services. The fiscal year 2005 notes to the audited financial statements did not disclose this liability. In our opinion, this liability should have been disclosed in the fiscal year 2005 audited financial statements. The Development Executive Director advised us that there were no expenditures of City contributions in fiscal year 2007.

The prior SDPLF administration may not have been aware of the proper disclosure requirements related to pledges and liabilities. In order to ensure the financial statements are complete and accurate, the Library needs to develop a disclosure policy or checklist to guide management in properly documenting all pertinent information.

**Audit Recommendations:**

- 12. Develop a disclosure policy / checklist to ensure management provides adequate information to the Independent CPA for financial statement preparation.**
- 13. Ensure the disclosure policy addresses:**
  - a. Required documentation of material promises to give for financial statement disclosure.**
  - b. Costs of material City contributed services and potentially reimbursable costs.**
  - c. Potential liabilities at year end not recorded in the financial records.**

**Office policies and procedures could be strengthened to improve the safeguarding of assets and proper authorization of expenditures.**

We reviewed the Library's policies and procedures and found that they could be strengthened in the areas related to the donor database, accounts payable, invoicing, and securing blank checks. Specifically, the following internal controls could be improved:

- The donor database has been accessed by two volunteers in the past. Although the Library staff advised us that the volunteers had considerable experience at the Library, some donor records may include confidential data. Access to data should be kept as restrictive as possible. There is not a written policy governing access to donor data although all users are instructed in writing on the confidentiality of data.
- Matching the donor database to the accounting deposits is a manual process. Cross referencing donor data to the accounting records would strengthen controls. The accounting records are on a stand alone computer.
- The SDPLF Resolution Authorizing Financial Expenditures does not prohibit a payee from signing a check payable to them. Strong internal controls require the check signature be someone other than the payee.
- The invoice submitted monthly by the consultant does not document the scope of work performed. All invoices should be self explanatory as to the services provided.
- Checks and check writing stock are kept in a locked cabinet; however, the key to the cabinet is not adequately secured. All donations are not deposited daily.

#### **Audit Recommendations:**

- 14. Establish a written policy on access to donor data.**
- 15. Determine if donor control batch numbers can be input into the accounting records in a way which would permit extraction of accounting data by batch control number to create an automated audit trail between the two databases. Ensure there are adequate back up procedures for accounting data.**
- 16. Implement written policies to ensure no payee can authorize a payment to themselves.**
- 17. Require all consultants to submit invoices documenting the scope of work performed.**
- 18. Secure the key to the cabinet, where donations and check stock are stored, in a locked area or consider the purchase of a safe.**

We have also created a summary of Best Practices [Attachment A], which should be considered while assessing controls and formalizing SDPLF procedures. We would like to thank the San Diego Library and the SDPLF staff for the assistance extended during our review.

## **BEST PRACTICES RELATED TO SDPLF OPERATIONS**

**1. Incorporate terms of the MOU into the SDPLF policies.**

The MOU requires the SDPLF to comply with the standard of care imposed on trustees under the Uniform Prudent Investor Act. Incorporating this into the investment policy would clearly demonstrate compliance with the MOU terms and the fiduciary responsibility of the Board.

**2. Create a year end list of required filings to the California Attorney General and the IRS and the due dates of the filings.**

Requirements for reporting to the State are based on levels of donations. If filings are not done timely, penalties may be incurred or the tax status may be jeopardized.

**3. Independent review of monthly bank reconciliations, verification of bank balances by the Board and review of monthly detailed credit card usage improves controls over expenditures.**

The SDPLF Board monitors expenses monthly. Consider on-line view access for Board Members to independently confirm bank activity. Also, the risks of credit card misuse can be minimized by implementing a policy requiring written reports to the Board of monthly credit card usage, listing detailed items purchased and the benefit of their purchase to SDPLF.

**4. Consultant contracts should include specific requirements for reimbursement of expenses and should be dated when signed.**

Organizations are subject to risk due to misunderstandings when contracts do not include specific details and requirements for reimbursement of expenses. The SDPLF requires pre-approval of expenses, which is a good control. Also, consultants should clearly understand who is authorized to approve the reimbursement and that receipts will be necessary prior to reimbursement.

**5. Data security is improved when access to computers is secured.**

The SDPLF secures access to data by assigning usernames and individual passwords. When computers with confidential data are left unattended, use of the automatic lock workstation feature would improve security of data.

**6. Document explanation of differences.**

Errors may occur in daily processing of transactions. When errors are identified, documentation of the circumstances and how/when the error was corrected improves accountability.

The following is management's written response to our audit report. We have also attached other information that they provided. We have not audited the accuracy of management's response or the additional information provided. Internal audit procedures require we perform a follow up audit to determine if recommendations have been implemented. At that time, the assertions included in management's responses will be tested.

**MANAGEMENT'S RESPONSE TO AUDIT REPORT**

**Executive Summary** - Libraries and public-private partnerships have a long and storied history as is the case with the San Diego Public Library which was founded over 125 years ago by a group of concerned private citizens. This mutually beneficial public-private partnership is as important today as it was at the turn of the last century when famed philanthropist Andrew Carnegie agreed to fund San Diego's first permanent library facility as long as the City agreed to pay for books and ongoing operations.

We are very fortunate to have the strong, dedicated team of volunteers who make up the San Diego Public Library Foundation and their partnership with the City has done much to ensure our libraries continue their vital role of fostering literacy and education for all. A one-page sheet highlighting fund raising contributions to the library this past year is attached, since its founding the Library Foundation has:

- Contributed nearly \$2 million to the library and holds nearly \$2 million in trust for library operations
- Helped the library secure numerous grants including more than \$25 million in state grant funding
- Ensured a stable source of future funding by promoting planned giving, endowment and the Carnegie Society which now represents over 50 gifts intended to support the Library.

We appreciate working with the City auditors to create better systems and have implemented nearly all the recommendations. While we do have differences in opinion with the City auditors, we are confident that both the Library Foundation and City administration fully understand the parameters of this symbiotic partnership. The Library Foundation has always reported regularly to City management and, for nearly two years, it has reported on a monthly basis and City Deputy Chief or designee has been represented on its Board of Directors. It is noteworthy, that the audit took place in the first year of new administration for the Library Foundation, including less than two months into the tenure of a new office manager who was just beginning to re-organize some systems and procedures.

### **Recommendation 1**

**Establish a City policy requiring the Library Development Executive Director report annually on SDPLF performance, compliance with the MOU, and compliance with applicable laws and regulations to the Chief Operating Officer and City Comptroller. Ensure this report to City management is sufficient to confirm the policies and practices related to Library donations are consistent with City objectives.**

### **Management's Response to Recommendation 1**

ADOPTED - Since its inception in 2001, the Library Foundation has reported no less than quarterly to City management and, as of July 1, 2006, it has reported monthly and a designate of the Mayor has served on the Foundation's Board of Directors. However, a policy will be developed and the Library Development Executive Director will report annually on SDPLF performance, compliance with the MOU, and compliance with applicable laws and regulations.

### **Recommendation 2**

**Include a comprehensive, comparative analysis of donations and related expenses of the SDPLF and all other City Library donations from all sources in the annual report to City management.**

### **Management's Response to Recommendation 2**

ADOPTED - A comprehensive analysis of Library contributions and expenses from all sources will be included in the annual report to City management.

### **Recommendation 3**

**Either engage a CPA firm to perform additional procedures annually to test and report on SDPLF compliance with the terms of the MOU or clarify the terms of the MOU.**

### **Management's Response to Recommendation 3**

PENDING - The Memo Of Understanding (MOU) between the City and Library Foundation is being rewritten so it includes the latest best practices in non-profit management. The terms to engage a CPA firm to perform additional procedures annually to test and report on SDPLF compliance will be removed. Compliance with the MOU will be verified in the annual report prepared by the Library Development Director.

#### **Recommendation 4**

**Ensure insurance for Commercial Crime Coverage complies with the terms of the MOU or revise the insurance requirements of the MOU with terms that still provide adequate coverage to protect donated assets.**

#### **Management's Response to Recommendation 4**

PENDING - It is policy of the SDPLF Finance Committee to review insurance coverage annually and, as the current policies expire in March, the next review will be at its February meeting. The language of the MOU does not follow standard non-profit practices in this area and coverage for the full amount of assets would be excessive. It is the opinion of the Library Foundation's outside auditors (Leaf & Cole) that SDPLF has effective procedures and safeguards in place and that a minimal amount of coverage is required. However, we will consult with Risk Management to ensure insurance for Commercial Crime Coverage complies with the terms of the MOU or revise the insurance requirements of the MOU with terms that still provide adequate coverage to protect donated assets

#### **Recommendation 5**

**Revise and clarify the terms of the SDPLF MOU that are unclear and subject to different interpretations.**

#### **Management's Response to Recommendation 5**

ADOPTED - There have been regular meetings between SDPLF, Library and City management and there are no conflicting interpretations of the MOU. We will revise and clarify the terms of the SDPLF MOU that are unclear.

#### **Recommendation 6**

**Revise the solicitation material to disclose fund raising expenses as a percent of donations or state financial statements are on file at the SDPLF address.**

#### **Management's Response to Recommendation 6**

ADOPTED – SDPLF solicitation materials now reference that financial statements are on file at its address.

#### **Recommendation 7**

**Revise the solicitation materials to permit the donors to indicate how their donations should be utilized or if the donation is unrestricted.**

#### **Management's Response to Recommendation 7**

ADOPTED – Solicitation materials have been revised to permit donors to specify or restrict their gifts.



**Recommendation 8**

**Ensure donors electing to have monies deposited directly at the City shall make checks payable to the City Treasurer with a memo note referencing Library donation.**

**Management's Response to Recommendation 8**

ADOPTED – Donors that wish to have their gifts deposited directly with the City will be asked to make gifts payable to the City Treasurer

**Recommendation 9**

**Disclose that the SDPLF is a non profit corporation on written solicitations for donations.**

**Management's Response to Recommendation 9**

ADOPTED - SDPLF has been listed as a non-profit corporation on solicitation materials since May, 2007.

**Recommendation 10**

**Request the SDPLF reimburse the City Library General Fund for fundraising expenses of \$88,995.**

**Management's Response to Recommendation 10**

ADOPTED - The Library Foundation's only purpose is to raise funds for the Library and the Foundation has reimbursed the City \$88,995 for this expense.

**Recommendation 11**

**Ensure the Foundation's financial statements disclose all fund raising expenses.**

**Management's Response to Recommendation 11**

ADOPTED - The Library Foundation financials, including the enclosed FY2007 audit, disclose all fund raising expenses.

**Recommendation 12**

**Develop a disclosure policy / checklist to ensure management provides adequate information to the Independent CPA for financial statement preparation.**

**Management's Response to Recommendation 12**

ADOPTED - SDPLF has a disclosure policy which was in place for the FY2007 audit.

### **Recommendation 13**

**Ensure the disclosure policy addresses:**

- a. Required documentation of material promises to give for financial statement disclosure.**
- b. Costs of material City contributed services and potentially reimbursable costs.**
- c. Potential liabilities at year end not recorded in the financial records.**

### **Management's Response to Recommendation 13**

**ADOPTED -** The SDPLF Disclosure Policy is enclosed.

### **Recommendation 14**

**Establish a written policy on access to donor data.**

### **Management's Response to Recommendation 14**

**ADOPTED -** SDPLF has had a Donor Records Policy in place since May, 2007.

### **Recommendation 15**

**Determine if donor control batch numbers can be input into the accounting records in a way which would permit extraction of accounting data by batch control number to create an automated audit trail between the two databases. Ensure there are adequate back up procedures for accounting data.**

### **Management's Response to Recommendation 15**

**ADOPTED -** SDPLF has included control batch numbers in accounting records and implemented automated audit trail between the accounting and fund raising software, including back up procedures since May, 2007.

### **Recommendation 16**

**Implement written policies to ensure no payee can authorize a payment to themselves.**

### **Management's Response to Recommendation 16**

**ADOPTED -** It has always been operational SDPLF policy that no payee can authorize a payment to themselves and such a payment has never occurred. The SDPLF Resolution Authorizing Financial Expenditures was formally revised to include such language and approved by the Board in November, 2007.

**Recommendation 17**

**Require all consultants to submit invoices documenting the scope of work performed.**

**Management's Response to Recommendation 17**

ADOPTED - SDPLF consultant invoices have included the specific scope of work since June, 2007.

**Recommendation 18**

**Secure the key to the cabinet, where donations and check stock are stored, in a locked area or consider the purchase of a safe.**

**Management's Response to Recommendation 18**

ADOPTED - The lock on the cabinet where SDPLF contributions and check stock are stored was changed in May, 2007 to a more secure combination-lock system. A policy is in place limiting access to the lock's setting and the key to set the combination is stored in a security safe.



**San Diego Public Library**  
**FOUNDATION**

## **San Diego Public Library Foundation Mission/Vision/Values Statement**

### **Our Mission**

The mission of the San Diego Public Library Foundation is to create, steward, and support an excellent free public library system by generating private sector support to supplement funding by the government.

### **Our Vision**

The San Diego Public Library Foundation will actively work to advance the mission of the library system by raising public awareness and financial support to expand library access, broaden its scope of services, enhance its community impact, and raise its operating standards. We will fulfill our vision over the next three years by providing the needed resources to:

- Secure funding to begin construction of the new Central Library.
- Secure funding for the construction of three additional branch library facilities.
- Expand public access through extended operating hours throughout the library system.
- Continue to exceed the City's matching fund goal for books, materials, programming and other resources.
- Actively promote access and awareness of library services through a sustained marketing and public relations effort.

To ensure that we successfully achieve our goals, we will initiate a community-wide marketing and fund raising campaign and augment our Board and staff to the levels necessary to fully support our organizational needs. Our Board of Directors will serve as ambassadors to advance the mission, values, and vision of the organization.

## **Our Values**

The following core values support our mission and vision. They guide our allocation of resources.

### **Excellence**

We will work to raise funds and public awareness in support of a library system that maintains the highest quality standards in every aspect of its endeavors.

### **Access**

We will help provide the necessary resources to continuously broaden library access for both residents & visitors to our community.

### **Literacy**

We believe literacy is essential to a healthy society. Therefore our library system must have the resources necessary to serve as a conduit for individual and communal learning, community interaction, formal and informal training, and intellectual, artistic and cultural expression.

### **Education**

We support libraries as educational resources that offer intellectually and physically safe environments for all segments of society in order to promote active learning for all who seek it.

### **Outreach**

We view libraries as a gateway for those individuals who are new to a community, country or culture. As such, we will support the library's efforts to offer both traditional and innovative research and educational opportunities. We will also strive to increase access to programs addressing the diversity of our region.

### **Community**

We recognize that our library system is a community asset and pledge to honor the diversity that is the hallmark of our city. We will endeavor to make the library's facilities and resources available for the broadest public benefit, consistent with our mission and values. In so doing, the library system will promote communication among people enhancing intellectual and emotional bonds across all diverse aspects of our community.

### **Accountability**

We will be responsible stewards of the public trust and the resources that are provided to us. We will operate in a financially prudent manner and ensure resources are applied to their designated purposes. We will use best business practices that allow us to better serve our community and assure financial and organizational vitality.

### **Governance**

We will achieve and maintain the highest standards in our governance, management and operational practices. We will continue to develop an engaged, informed Board of Directors and an experienced and accomplished staff. We will actively seek advice and support from a broad constituency that is representative of those we serve.



## Library Fund Raising Top 10 List

How private contributions supported the Library in FY2007

The San Diego Public Library staff and Foundation work together to link supporters with the Library's greatest needs. Listed below are ten examples of how this teamwork impacted the Library in FY2007:

1. Raised more than \$3 million, exceeding budget targets.
2. Attracted \$1.36 million in support to meet the City match for the fourth consecutive year, meaning an additional \$2.72 million in funds for critically-needed books, materials, equipment, programming and electronic resources.
3. Ensured a stable source of future funding through 47 planned gifts via the Carnegie Society—including more than \$1 million in new bequest gifts during FY2007.
4. Secured private funding for *Live Homework Help* which gives Library card holders in grades 4 through 12 a qualified online tutor free of charge.
5. Provided Sunday hours at three branches—Serra Mesa/Kearny Mesa, La Jolla and Point Loma—which were not slated to receive Sunday hours in the FY2007 budget.
6. Secured funding to enhance the *Summer Reading Program* and children's programming at 13 Libraries in underserved neighborhoods. More than 95 percent of surveyed parents said the program helped their child improve or maintain his or her reading skills.
7. Set a record for the Library support with 13,400 active contributors.\*
8. Secured funding for crucial programs, including the *One Book, One San Diego* that was launched in partnership with KPBS. This program encourages San Diegans to read the same book at the same time and fostered a discussion and debate on the book's topics.
9. Funded expansion of the *Families for Literacy* program at the Serra Mesa/Kearny Mesa branch and continuation of services at the City Heights, Malcolm X and College-Rolando branches.
10. Leveraged public money by securing private funding for critically-needed equipment and storage space in the renovation of the Paradise Hills branch.



Photo: Lowell Waxman



Photo: Judy Cunningham



Photo: Lowell Waxman

\* Those making a gift within the previous 60 months.



## **DISCLOSURE TO INDEPENDENT CPA POLICY**

Because the San Diego Public Library Foundation fully understands the importance of strong fiscal and financial management and full disclosure, we affirm and commit that we will make the following representations to our independent CPA/accounting firm:

1. The financial statements which are fairly presented in conformity with U.S. generally accepted accounting principles and include all assets and liabilities under the organization's control.
2. Full disclosure of all:
  - a. Financial records and related data.
  - b. Minutes of the meetings of Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. Any communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. Any material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
6. We have no knowledge of any fraud or suspected fraud affecting the Organization involving:
  - a. Management.
  - b. Employees who have significant roles in internal control.
  - c. Others where the fraud could have a material effect on the financial statements.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, grantors, regulators, or others.
8. The Organization has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net asset balances.

9. The following, if any, have been properly recorded or disclosed in the financial statements:
  - a. Related party transactions, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
  - b. Guarantees, whether written or oral, under which the Organization is contingently liable.
  - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.
10. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that near term means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the organization vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.
11. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts.
12. San Diego Public Library Foundation is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the Organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up to date.
13. There are no:
  - a. Violations or possible violations of laws and regulations and provisions of contracts and grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - b. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with Statement of Financial Accounting Standards No. 5 (or which would affect federal award programs) , and we have not consulted a lawyer concerning litigation, claims or assessments.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
  - d. Designations of net assets disclosed by you that were not properly authorized and approved, or reclassifications of net assets that have not been properly reflected in the financial statements



14. The Organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged.
15. We have complied with all restrictions on resources (including donor restrictions) and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.

**SAN DIEGO PUBLIC LIBRARY FOUNDATION**

**FINANCIAL STATEMENTS**

**JUNE 30, 2007**

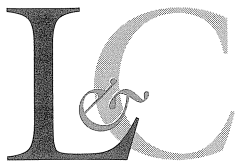


Leaf & Cole, LLP  
*Certified Public Accountants*

**SAN DIEGO PUBLIC LIBRARY FOUNDATION  
FINANCIAL STATEMENTS  
JUNE 30, 2007**

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Leaf & Cole, LLP  
Certified Public Accountants  
A Partnership of Professional Corporations

1843 Hotel Circle South  
Suite 300  
San Diego, California  
92108-3397  
619.294.7200  
619.294.7077 fax  
www.leaf-cole.com  
leafcole@leaf-cole.com

Steven W. Northcote, C.P.A.  
Michael S. Schreiberman, C.P.A.  
Michael J. Zizzi, C.P.A.  
Julie A. Firl, C.P.A.  
Nicholas M. Gines, C.P.A.

*Members*  
American Institute of Certified Public Accountants  
California Society of Certified Public Accountants

## Independent Auditor's Report

To the Board of Directors  
San Diego Public Library Foundation  
820 E Street, MS 17  
San Diego, California 92101

We have audited the accompanying statement of financial position of San Diego Public Library Foundation (A California Nonprofit Corporation) as of June 30, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Diego Public Library Foundation as of June 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary schedule of functional expenses on page 9 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

San Diego, California  
January 8, 2008

**SAN DIEGO PUBLIC LIBRARY FOUNDATION  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2007**

**ASSETS**

**Assets:** (Notes 1 and 2)

Cash and Cash Equivalents:	
Unrestricted	\$ 160,499
Restricted	774,088
San Diego Foundation Fund:	
City contribution fund	112,448
Non-City contribution fund	127,118
Accrued interest receivable	2,742
Prepaid expenses	2,211
Equipment and software, net	<u>23,348</u>
<b>TOTAL ASSETS</b>	<b><u>\$1,202,454</u></b>

**LIABILITIES AND NET ASSETS**

**Liabilities:**

Accounts payable	\$ <u>1,316</u>
<b><u>Net Assets:</u></b> (Notes 1 and 3)	
Unrestricted	184,742
Temporarily restricted	<u>1,016,396</u>
Total Net Assets	<u>1,201,138</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$1,202,454</u></b>

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

**SAN DIEGO PUBLIC LIBRARY FOUNDATION**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b><u>Revenue and Support:</u></b>			
Contributions	\$ 267,373	\$1,572,157	\$1,839,530
In-kind contributions	341,800	61,450	403,250
Investment income	37,304	2,742	40,046
Net assets released from restrictions	<u>867,885</u>	<u>(867,885)</u>	<u>-0-</u>
Total Revenue and Support	<u>1,514,362</u>	<u>768,464</u>	<u>2,282,826</u>
<b><u>Expenses:</u></b>			
<b><u>Program Services:</u></b>			
San Diego Public Library	<u>867,885</u>	<u>-0-</u>	<u>867,885</u>
<b><u>Supporting Services:</u></b>			
Fundraising and capital campaign	374,559		374,559
Management and general	<u>87,176</u>	<u>          </u>	<u>87,176</u>
Total Supporting Services	<u>461,735</u>	<u>-0-</u>	<u>461,735</u>
Total Expenses	<u>1,329,620</u>	<u>-0-</u>	<u>1,329,620</u>
Change in Net Assets	184,742	768,464	953,206
Net Assets at Beginning of Year, As Restated (Note 4)	<u>-0-</u>	<u>247,932</u>	<u>247,932</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 184,742</u></b>	<b><u>\$1,016,396</u></b>	<b><u>\$1,201,138</u></b>

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

**SAN DIEGO PUBLIC LIBRARY FOUNDATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2007**

**Cash Flows From Operating Activities:**

Change in net assets	\$ 953,206
<b>Adjustments to reconcile change in net assets to net cash provided by operating activities:</b>	
Depreciation	10,274
<b>(Increase) Decrease in:</b>	
Accrued interest receivable	(2,742)
Prepaid expenses	(2,211)
<b>Increase (Decrease) in:</b>	
Accounts payable	<u>(36,022)</u>
Net Cash Provided by Operating Activities	<u>922,505</u>

**Cash Flows From Investing Activities:**

Purchase of computer software	<u>(33,622)</u>
Net Cash Used by Investing Activities	<u>(33,622)</u>
 Increase in Cash and Cash Equivalents	 888,883
Cash and Cash Equivalents, Beginning of Year	<u>285,270</u>
 <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	 <b><u>\$1,174,153</u></b>

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

**SAN DIEGO PUBLIC LIBRARY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

**Note 1 - Organization and Nature of Activities and Significant Accounting Policies:**

**Organization and Nature of Activities**

San Diego Public Library Foundation (the "Foundation") is a California Nonprofit Corporation established in 2002 to support the San Diego Public Library system.

**Significant Accounting Policies**

**Method of Accounting**

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

**Financial Statement Presentation**

The financial statements are presented in accordance with Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-For-Profit Organizations", which requires the Organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Equipment and Software**

Equipment and software are recorded at cost. Donations of equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassified temporarily restricted net assets to unrestricted net assets at that time. Software totalled \$23,348 net of accumulated depreciation of \$10,274 at June 30, 2007. Software is depreciated using the straight-line method over the estimated useful assets lives as follows:



**SAN DIEGO PUBLIC LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**Note 1 - Organization and Nature of Activities and Significant Accounting Policies:** (Continued)

**Significant Accounting Policies** (Continued)

**Equipment and Software** (Continued)

Software	3 years
----------	---------

Depreciation aggregated \$10,274 for the year ended June 30, 2007.

Maintenance, repairs and minor renewals are charged to operations as incurred. Upon sale or disposition of equipment, the asset account is received of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale and any resultant gain or loss is credited or charged to earnings.

**Contributions**

Contributions are recognized when the donor makes a promise to give in writing to the Foundation that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Foundation raised \$2,872,515 in contributions for the San Diego Public Library system that are not included as contributions in these financial statements since they were received directly by the City of San Diego.

**Donated Services, Rent (Office Space), Office Support and Other Outside Services and Equipment**

The Foundation received contributed personnel services, rent (office space), and other outside services totalling \$341,800 and donated equipment for program services totalling \$61,450 which have been reflected in the financial statements as in-kind contributions for the year ended June 30, 2007.

Additionally, a substantial number of volunteers have donated significant amounts of their time to the Foundation fundraising campaigns. However, these services have not been recognized, in as much as services either do not require specialized skill or would not typically be purchased had they not been provided by donation.

**SAN DIEGO PUBLIC LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**Note 1 - Organization and Nature of Activities and Significant Accounting Policies:** (Continued)

**Significant Accounting Policies** (Continued)

**Income Tax Status**

The Foundation is a public charity and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code.

**Concentration of Credit Risk**

The Foundation maintains its cash in bank accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant credit risk on cash and cash equivalents.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Foundation considers all investment instruments purchased with a maturity of three months or less to be cash equivalents.

**Note 2 - San Diego Foundation Fund:**

**San Diego Public Library Foundation Fund (City Contributions)**

The Foundation established a charitable non-endowment fund, the San Diego Public Library Foundation Fund (City Contributions), with the San Diego Foundation. The Foundation established the fund with a \$1,000,000 deposit from the City of San Diego. The following is the activity in the fund for the year ended June 30, 2007:

Balance June 30, 2006	\$142,141
Investment income	5,724
San Diego Foundation fees	(2,132)
Foundation expenses - year ended 2006	<u>(33,285)</u>
Balance June 30, 2007	<u>\$112,448</u>

**SAN DIEGO PUBLIC LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**Note 2 - San Diego Foundation Fund:** (Continued)

**San Diego Public Library Foundation (Non-City Contributions)**

The Foundation established a charitable non-endowment fund, the San Diego Public Library Foundation Fund (Non-City Contributions), with the San Diego Foundation. The following is the activity in the fund for the year ended June 30, 2007:

Balance June 30, 2006	\$143,129
Contributions from donors	250
Investment income	5,889
San Diego Foundation fees	(2,150)
Foundation expenses	<u>(20,000)</u>
Balance June 30, 2007	<u>\$127,118</u>

**Note 3 - Temporarily Restricted Net Assets:**

At June 30, 2007 temporarily restricted net assets totalling \$1,016,396 consist of contributions received by the Foundation that have purpose restrictions to be fulfilled in the future.

For the year ended June 30, 2007, net assets in the amount \$716,859, respectively were released from donor restrictions by incurring expenses satisfying the purpose restrictions specified by donors.

**Note 4 - Accounting Change:**

On July 1, 2006, the Foundation changed from the cash basis of accounting to the accrual basis of accounting. The effect of this change was to decrease temporarily restricted net assets as of June 30, 2006 by \$37,338 from \$285,270 as originally reported to \$247,932, as restated at June 30, 2006.

**SAN DIEGO PUBLIC LIBRARY FOUNDATION  
SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2007**

		<u>Supporting Services</u>			
	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total Supporting Services</u>	<u>Total</u>
Books and materials	\$502,722	\$	\$	\$ -0-	\$ 502,722
Personnel costs		221,875	16,125	238,000	238,000
Equipment/technology	203,670			-0-	203,670
Outside services		87,000		87,000	87,000
Consulting fees	13,460	38,109	31,027	69,136	82,596
Program matching	77,558			-0-	77,558
Other support	70,475			-0-	70,475
Rent			16,800	16,800	16,800
Printing		8,336	2,430	10,766	10,766
Computers and equipment			10,761	10,761	10,761
Depreciation		10,274		10,274	10,274
Postage		2,487	2,775	5,262	5,262
Audit			3,800	3,800	3,800
Catering/rentals		2,920		2,920	2,920
Insurance			2,474	2,474	2,474
Graphics		2,217		2,217	2,217
Donor relations		1,341		1,341	1,341
Other expenses			771	771	771
Office expense			213	213	213
<b>TOTAL EXPENSES</b>	<b><u>\$867,885</u></b>	<b><u>\$374,559</u></b>	<b><u>\$87,176</u></b>	<b><u>\$461,735</u></b>	<b><u>\$1,329,620</u></b>