

**THE FRIENDS AND FOUNDATION
OF THE SAN FRANCISCO
PUBLIC LIBRARY**

FINANCIAL STATEMENTS

JUNE 30, 2018

PASADENA
234 E Colorado Blvd
Suite M150
Pasadena, CA 91101
p: 626.403.6801

A Trusted Nonprofit Partner

Main Fax: 626.403.6866

www.npocpas.com

OAKLAND
1901 Harrison Street
Suite 1150
Oakland, CA 94612
p: 510.379.1182

CONTENTS

Independent Auditors' Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-18

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Friends and Foundation of the San Francisco Public Library

Report on the Financial Statements

We have audited the accompanying financial statements of The Friends and Foundation of the San Francisco Public Library (a nonprofit organization), which comprise the Statement of Financial Position as of June 30, 2018, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 auditors' 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 Friends and Foundation of the San Francisco Public Library as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Report on Summarized Comparative Information

We have previously audited The Friends and Foundation of the San Francisco Public Library's 2017 financial statements, and expressed an unmodified audit opinion on those audited financial statements in our report dated October 5, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Harrington Group

Oakland, California
November 8, 2018

**THE FRIENDS AND FOUNDATION OF THE
SAN FRANCISCO PUBLIC LIBRARY**

STATEMENT OF FINANCIAL POSITION

June 30, 2018

With comparative totals at June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2018</u>	<u>2017</u>
ASSETS					
Cash and cash equivalents (Note 2)	\$ 226,800	\$ -	\$ -	\$ 226,800	\$ 578,349
Other receivable	21,630			21,630	31,357
Pledges receivable - net (Note 3)		292,651		292,651	254,826
Prepaid expenses	113,276			113,276	76,796
Investments (Note 4)	554,496	2,053,758	3,603,833	6,212,087	6,306,998
Property and equipment (Note 6)	434,598			434,598	479,160
TOTAL ASSETS	<u>\$ 1,350,800</u>	<u>\$ 2,346,409</u>	<u>\$ 3,603,833</u>	<u>\$ 7,301,042</u>	<u>\$ 7,727,486</u>
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable	\$ 121,855	\$ -	\$ -	\$ 121,855	\$ 167,702
Accrued vacation payable	72,403			72,403	61,464
TOTAL LIABILITIES	<u>194,258</u>	<u>-</u>	<u>-</u>	<u>194,258</u>	<u>229,166</u>
NET ASSETS					
Unrestricted	1,156,542			1,156,542	1,559,187
Temporarily restricted (Note 8)		2,346,409		2,346,409	2,335,300
Permanently restricted (Note 9)			3,603,833	3,603,833	3,603,833
TOTAL NET ASSETS	<u>1,156,542</u>	<u>2,346,409</u>	<u>3,603,833</u>	<u>7,106,784</u>	<u>7,498,320</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,350,800</u>	<u>\$ 2,346,409</u>	<u>\$ 3,603,833</u>	<u>\$ 7,301,042</u>	<u>\$ 7,727,486</u>

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

**THE FRIENDS AND FOUNDATION OF THE
SAN FRANCISCO PUBLIC LIBRARY**

STATEMENT OF ACTIVITIES

For the year ended June 30, 2018

With comparative totals for the year ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2018</u>	<u>2017</u>
REVENUE AND SUPPORT					
Contributions	\$ 1,112,171	\$ 260,034	\$ -	\$ 1,372,205	\$ 1,028,841
Book sales, net of expenses of \$95,965	1,336,918			1,336,918	1,166,098
In-kind donations (Note 2)	788,716			788,716	724,602
Investment income	96,494	72,412		168,906	323,920
Bequests	128,267	6,959		135,226	928,526
Government contracts and grants	40,000			40,000	50,000
Other income	86	13		99	79
Special events				-	152,250
Net assets released from restrictions	328,309	(328,309)		-	-
TOTAL REVENUE AND SUPPORT	<u>3,830,961</u>	<u>11,109</u>	<u>-</u>	<u>3,842,070</u>	<u>4,374,316</u>
EXPENSES					
Program services	3,553,854			3,553,854	3,556,719
Support services	679,752			679,752	546,634
TOTAL EXPENSES	<u>4,233,606</u>	<u>-</u>	<u>-</u>	<u>4,233,606</u>	<u>4,103,353</u>
CHANGE IN NET ASSETS	(402,645)	11,109	-	(391,536)	270,963
NET ASSETS, BEGINNING OF YEAR	<u>1,559,187</u>	<u>2,335,300</u>	<u>3,603,833</u>	<u>7,498,320</u>	<u>7,227,357</u>
NET ASSETS, END OF YEAR	<u>\$ 1,156,542</u>	<u>\$ 2,346,409</u>	<u>\$ 3,603,833</u>	<u>\$ 7,106,784</u>	<u>\$ 7,498,320</u>

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

**THE FRIENDS AND FOUNDATION OF THE
SAN FRANCISCO PUBLIC LIBRARY**

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2018

With comparative totals for the year ended June 30, 2017

	Program Services				Support Services			Total Expenses
	Library Support		Book Distribution	Total Program Services	Management and General		Total Support Services	
	Volunteers	Library Support			General	Fundraising		
Outreach Series								
\$ 139,158	\$ 83,132	\$ 303,208	\$ 598,934	\$ 1,124,432	\$ 110,628	\$ 178,908	\$ 1,413,968	\$ 1,359,040
Taxes and benefits	30,795	18,128	74,617	179,925	303,465	35,098	363,142	330,526
Total personnel costs	169,953	101,260	377,825	778,859	1,427,897	214,006	1,777,110	1,689,566
In-kind expenses (Note 11)	39,436	53,776	141,610	399,736	634,558	93,212	788,716	724,602
Direct project grants			560,622	560,622			560,622	630,616
Rent	8,039	10,962	28,866	362,764	410,631	12,424	442,056	407,086
Contract services	3,522	4,802	12,647	76,470	97,441	5,443	156,551	128,195
Repairs and maintenance	1,075	4,304	3,860	39,152	48,391	1,661	73,025	53,320
Postage and delivery	62	126	224	41,644	42,056	96	58,582	47,017
Supplies	948	11,445	2,732	36,872	51,997	1,174	56,848	67,033
Rentals and equipment	449	612	1,611	50,235	52,907	693	54,660	34,788
Depreciation	886	1,208	3,182	42,467	47,743	1,370	51,208	85,108
Utilities	1,221	1,191	3,136	41,574	47,122	1,350	50,536	55,055
Bank charges	1,132	1,544	4,065	28,647	35,388	1,750	39,814	38,551
Accounting, audit, and legal	1,495	2,039	5,368	15,154	24,056	2,310	29,900	26,300
Printing	5,014	140	50	4,238	9,442	22	18,711	30,678
Insurance	838	1,143	3,010	10,444	15,435	1,295	18,711	19,449
Telephone	426	580	1,528	13,346	15,880	658	17,544	20,835
Travel	76	4,885	263	6,037	11,261	113	11,839	8,554
Advertising	8,836			8,836			8,836	11,456
Payroll processing	331	451	1,187	3,351	5,320	511	6,612	6,648
Dues and subscriptions	1,527	22	58	1,164	2,771	25	5,365	5,301
Networking and staff development	206	281	740	2,090	3,317	319	5,196	11,211
Licenses and fees	66	54	143	520	783	62	1,164	2,004
TOTAL 2018 FUNCTIONAL EXPENSES	\$ 245,538	\$ 200,825	\$ 1,152,727	\$ 1,954,764	\$ 3,553,854	\$ 227,429	\$ 4,233,606	\$ 4,233,606
TOTAL 2017 FUNCTIONAL EXPENSES	\$ 289,056	\$ 176,735	\$ 1,213,878	\$ 1,877,050	\$ 3,556,719	\$ 140,926	\$ 4,103,353	\$ 4,103,353

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

**THE FRIENDS AND FOUNDATION OF THE
SAN FRANCISCO PUBLIC LIBRARY**

STATEMENT OF CASH FLOWS
For the year ended June 30, 2018
With comparative totals for the year ended June 30, 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (391,536)	\$ 270,963
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Depreciation	51,208	85,108
Write-off of property and equipment	-	39,800
(Gain) on investments	(12,817)	(239,112)
Reinvested interest and dividends	(156,118)	(155,781)
Change in allowance for doubtful accounts	1,653	(1,208)
Change in discount on pledges	1,857	1,181
(Increase) decrease in operating assets:		
Other receivable	9,727	14,929
Pledges receivable	(41,335)	30,220
Prepaid expenses	(36,480)	20,534
Increase (decrease) in operating liabilities:		
Accounts payable	(45,847)	(92,056)
Accrued vacation payable	10,939	(9,469)
NET CASH (USED) BY OPERATING ACTIVITIES	(608,749)	(34,891)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(6,646)	(38,134)
Proceeds from sale of investments	271,377	374,744
Purchase of investments	(7,531)	(987)
NET CASH PROVIDED BY INVESTING ACTIVITIES:	257,200	335,623
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(351,549)	300,732
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	578,349	277,617
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 226,800	\$ 578,349

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

THE FRIENDS AND FOUNDATION OF THE SAN FRANCISCO PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

1. Organization

Founded in 1961, The Friends and Foundation of the San Francisco Public Library ("Friends") is a member-supported, nonprofit organization that advocates, fundraises, and provides critical support for the San Francisco Public Library ("Library") and its mission for a literate and literary 21st Century community. Friends is dedicated to creating, stewarding, and supporting one of the best public library systems in the country. In fact, the SFPL was awarded the Gale Library Journal National Library of the Year Award in June, 2018. Friends believes in free and equal access to information for all and is committed to raising the standard of excellence of our libraries by funding programs, services, special collections, furniture, fixtures, equipment and beyond what is allocated in the City of San Francisco's budget. During its 56 years in existence, Friends has raised over \$70 million in private philanthropy, with nearly half of it, \$32 million, for the new Main Library's furniture, fixtures and equipment in 1996. Friends also administers endowment funds that provide ongoing support to the Library. A summary of its programs is as follows:

Library Support

Friends has an annual direct support program that funds various library programs, resources and equipment. As a community foundation, Friends awards grants that sponsor instructive, innovative and informative free programs and services and are open to everyone across San Francisco such as One City One Book, the Summer Reading Program, Tricycle Music Festival, and the publication of *At the Library*, a free newsletter of activities at the Main library and the 27 branches. These grants respond to a variety of community needs from educational programs for children, youth, and adults, to unique neighborhood projects at the branches and to museum-quality literary arts, exhibits both in the Main Library and branches. Grants also support library staff development and other library projects featured in The Mix teen space, The Bridge center for readers, the Stegner Environmental Center, the James C. Hormel LGBT Center, the Chinese and African-American Center. Annual innovation grants are made to inspire the Library to pilot projects and/or programs that if successful, are often expanded system wide.

Through Friends, community members express their support and aspirations for the Library as:

- Persuasive Advocates committed to a strong and responsive Library with reliable public funding
- Engaged Champions advancing the Library's mission for community literacy and expansive free resources and opportunities for everyone
- Generous Investors bridging the funding gap between what the city provides and the cost of additional programs, resources and services that San Franciscans want and need

THE FRIENDS AND FOUNDATION OF THE SAN FRANCISCO PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

1. **Organization**, continued

Fundraising

Friends' financial support of the library come from over 6,000 member households, a generous donor base, and a unique and successful used book sale model that includes two bookstores and frequent book sales. Friends is a united community of supporters who share a common vision of excellence for the Library and provides those supporters with a variety of opportunities to participate as donors, volunteers and advocates.

Past fundraising successes included \$32 million for the new Main Library and 14 million for renovation and rebuilding of 24 neighborhood library branches (the Neighborhood Library Campaign), the San Francisco Public Library has entered a new era, one that embraces the integration of 21st Century literacy, state of the art technology, and culturally responsive and welcoming libraries.

In addition to supporting special capital needs and projects, Friends makes an annual grant award to the SFPL averaging \$750,000 for Library programs and services that support one or more of the following six San Francisco Public Library strategic priorities:

- Premier Urban Library - positioning the SFPL as America's premier public library in delivering accessible services for San Francisco residents through service excellence, a welcoming atmosphere and cultural awareness and inclusion;
- Learning and Literacy - building a highly literate and educated community, which redefines literacy for 21st century digital learners;
- Youth Engagement - supporting the city's youth with programs and services including teen learning, outreach to schools and expanded teen services with emphasis on access to technology and media literacy;
- Digital Strategy - ensuring equitable access to public technology and resources;
- Partnerships for Excellence - leveraging the SFPL's resources to strengthen the services and programs offered and helping the SFPL reach a larger audience; and
- Organizational Excellence - employing best practices to train develop and engage staff for high performance, to operate in an adaptive and fiscally responsible manner and make optimal use of space.

continued

THE FRIENDS AND FOUNDATION OF THE SAN FRANCISCO PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

1. **Organization**, continued

Advocacy

Friends continues the tradition of active and vocal support to ensure excellence in library services for all users. Friends' long and successful track record includes its critical role in passing four ballot measures over the last 30 years. Through its advocacy efforts, Friends helped pass a \$106 million bond measure to build and refurbish 24 neighborhood branch libraries city-wide (2000, Prop A), championing the Library Preservation Fund, ensuring increased library hours, services and budget (1994, Prop E); spearheading the legislative campaign to build a \$109.5 million new Main Library (1988, Prop A) and securing over \$9.7 million in state funding. Most recently, Friends helped pass a measure that will bring in over \$1.2 billion to the library by renewing the Library Preservation Fund (2007, Prop D). We continue to work with elected officials, community groups and the library administration to ensure a premier library system for San Francisco.

Community Programming

Community Book Program. Through ongoing efforts to support the library, Friends connects readers with books and authors. Each year, through its Community Book Program, Friends takes in over 1,000,000 donated books and media, which it in turn resells to the public through two bookstores, online sales and a number of specialty book sales (including some of the largest book sales on the West Coast). The Library also selectively acquires rare books from Friends that enhance the Library's collections. Many books are also donated to schools and other non-profit organizations. In addition, Friends hosts special events for its members with well-known authors, and other special events such as Poets 11 showcasing poets in every San Francisco neighborhood. In addition, Friends hosts a twice a year after-hours event for its members in a branch library with a special program focus for each event.

This fiscal year, Friends reengineered what has been known as Books Operations into the Community Book Program embracing its activities more accurately and fueling its growth as a valuable community asset that supports the Library's mission for literacy and literary engagement. CPB's four fundamental goals balance literacy and a national model for environmental responsibility. These goals are to:

- Increase access to low-cost books and media through multiple venues of convenience and affordability
- Redirect free books from the traditional market to underserved and low-income children and families
- Promote literary engagement through free literary activities
- Keep more than one million books and media out of landfill and recycling plants each year

THE FRIENDS AND FOUNDATION OF THE SAN FRANCISCO PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

1. **Organization**, continued

Volunteer Program. Friends has a robust volunteer programs in which over 1,400 volunteers help sell books in the CBP, support library and Friends' literary events, and the contribute to our library advocacy efforts by educating the public about the library preservation fund and promoting patronage of the 28 libraries.

The Lisa Brown & Daniel Handler Writer's Residency at Friends. Made possible by the generosity of Daniel Handler and Lisa Brown, the residency is designed to provide five writers with free, adequate and accessible space in which to produce creative work, and to connect writers with the San Francisco Public Library in the course of producing and sharing their work in the community. Five resident authors now work in designated space the Friends office (the writes hive) where they have 24 hour access to the office and the amenities of a network, printers, and supplies. Residents are also connected to one branch library for the purpose of showcasing their talents and engaging directly with patrons.

2. **Summary of Significant Accounting Policies**

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of Friends are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted. These generally result from revenue generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Temporarily Restricted. Friends reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

THE FRIENDS AND FOUNDATION OF THE SAN FRANCISCO PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Permanently Restricted. These net assets are restricted by donors who stipulate that funds are to be maintained permanently, but permit Friends to expend all of the income (or other economic benefits) derived from the donated assets.

Cash and Cash Equivalents

Friends has defined cash and cash equivalents as cash in banks and certificates of deposits with an original maturity of three months or less.

Contributions and Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Investments

Friends values its investments at fair value. Unrealized gains or losses (including investments bought, sold, and held during the year) are reflected in the Statement of Activities as gain (loss) on investments. Short-term, highly liquid money market deposits that are not used for operations are treated as investments.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

Friends is required to measure non-cash contributions and certain investments at fair value. The specific techniques used to measure fair value for these financial statement elements are described in the notes below that relate to each element.

Concentration of Credit Risks

Friends places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. Friends has not incurred losses related to these investments or cash equivalents and transfers funds to other institutions on a regular basis to manage this risk.

continued

**THE FRIENDS AND FOUNDATION OF THE
SAN FRANCISCO PUBLIC LIBRARY**

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Friends holds investments in the form of short-term money market investments, mutual funds, bonds and common stocks of publicly held companies. The Board of Directors routinely reviews market values of such investments and credit ratings of bond issuers.

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to one thousand dollars and the useful life is greater than one year.

Donated Materials and Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received.

A number of unpaid volunteers have made significant contributions of their time to Friends. The value of these services in the Book Distribution program is reflected in these statements as \$783,045 (see Note 11).

Income Taxes

Friends is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by Friends in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. Friends' returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Functional Allocation of Expenses

Costs of providing Friends' programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. Friends uses full time employee equivalents to allocate indirect costs.

**THE FRIENDS AND FOUNDATION OF THE
SAN FRANCISCO PUBLIC LIBRARY**

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Use of 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 reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

Comparative Totals

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Friends' financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through November 8, 2018, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

3. Pledges Receivable

Pledges receivable are recorded as support when pledged unless designated otherwise. An allowance for doubtful accounts has been established for uncollectible pledges. All pledges are valued at their estimated fair value at June 30, 2018, and a discount rate of 1.89% has been used to calculate the present value of pledges receivable. Total amount of pledges receivable at June 30, 2018 of \$292,651 is expected to be collected as follows:

<u>Year ended June 30,</u>	
2019	\$178,399
2020	86,900
2021	40,000
2022	<u>4,500</u>
	309,799
Less: Allowance for doubtful pledges receivable	(12,392)
Unamortized discount on pledges receivable	<u>(4,756)</u>
	<u>\$292,651</u>

continued

**THE FRIENDS AND FOUNDATION OF THE
SAN FRANCISCO PUBLIC LIBRARY**

NOTES TO FINANCIAL STATEMENTS

4. Investments

Investments at June 30, 2018 consist of the following:

Fixed income	\$3,102,447
Equities	2,938,234
Cash equivalents	<u>171,406</u>
	<u>\$6,212,087</u>

Changes in investments for the year ended June 30, 2018 are as follows:

Investments, beginning of year	\$6,306,998
Interest and dividends	156,118
Gain on investments	12,817
Purchase of investments	7,531
Sale of investments	<u>(271,377)</u>
Investments, end of year	<u>\$6,212,087</u>

5. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2018 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 171,406	\$ -	\$ -	\$ 171,406
Fixed income				
Fixed income intermediate		3,102,447		3,102,447
Equities				
Large cap core	984,198			984,198
International equity	574,667			574,667
Global growth	354,364			354,364
Mid cap core	193,335			193,335
Large cap value	162,202			162,202
Small cap value	147,757			147,757
Other	<u>521,711</u>			<u>521,711</u>
Total equities	<u>2,938,234</u>	<u>-</u>	<u>-</u>	<u>2,938,234</u>
	<u>\$3,109,640</u>	<u>\$3,102,447</u>	<u>\$ -</u>	<u>\$6,212,087</u>

The fair values of cash equivalents, mutual funds, and equities have been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

The fair value of fixed income has been measured on a recurring basis using quoted prices in active markets for the same or similar assets (Level 2 inputs).

**THE FRIENDS AND FOUNDATION OF THE
SAN FRANCISCO PUBLIC LIBRARY**

NOTES TO FINANCIAL STATEMENTS

5. Fair Value Measurements, continued

The table below present transactions measured at fair value on a non-recurring basis during the year ended June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributed services	\$ -	\$783,045	\$ -	\$783,045
Contributed materials		<u>5,671</u>		<u>5,671</u>
	<u>\$ -</u>	<u>\$788,716</u>	<u>\$ -</u>	<u>\$788,716</u>

The fair value of contributed services and material has been measured on a non-recurring basis using quoted prices for similar assets in inactive markets (Level 2 inputs).

6. Property and Equipment

Property and equipment at June 30, 2018 consist of the following:

Leasehold improvements	\$ 880,542
Computers and software	269,751
Furniture and equipment	<u>227,238</u>
	1,377,531
Less: accumulated depreciation	<u>(942,933)</u>
	<u>\$ 434,598</u>

Depreciation expense for the year ended June 30, 2018 was \$51,208.

7. Commitments and Contingencies

Obligations Under Operating Leases

Friends leases various facilities under operating leases with various terms. Future minimum payments, by year and in aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

<u>Year ended June 30,</u>	
2019	\$ 336,553
2020	341,825
2021	333,869
2022	192,168
2023	197,934
Thereafter	<u>238,014</u>
	<u>\$1,640,363</u>

Rental expense under operating leases for the year ended June 30, 2018 was \$442,056.

continued

**THE FRIENDS AND FOUNDATION OF THE
SAN FRANCISCO PUBLIC LIBRARY**

NOTES TO FINANCIAL STATEMENTS

8. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 consist of the following:

Affinity groups and centers	\$ 935,105
Branch library support	495,655
Programs and exhibitions	196,554
Project read	154,393
Dannenberg collection	96,815
Children's programming	91,499
Capital projects	20,260
Other	<u>356,128</u>
	<u>\$2,346,409</u>

9. Permanently Restricted Net Assets

Permanently restricted net assets represent contributions which the donor has stipulated that the principal is to be kept intact in perpetuity and only the interest and dividends therefrom may be expended for unrestricted purposes. At June 30, 2018, permanently restricted net assets consist of the following:

The Mel Swig Endowment	\$1,462,589
Phyllis C. Wattis Fund for the Main Library	1,000,000
The James C. Hormel Endowment	861,076
The Fritz and Lilian Dannenberg Library Fund	255,168
The Schmulowitz Collection of Wit and Humor Endowment	<u>25,000</u>
	<u>\$3,603,833</u>

10. Endowment Funds

Friends' endowment consists of five funds established for a variety of purposes and includes donor-restricted funds. Net assets associated with this endowment are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Friends classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Friends in a manner consistent with the standard of prudence prescribed by UPMIFA.

**THE FRIENDS AND FOUNDATION OF THE
SAN FRANCISCO PUBLIC LIBRARY**

NOTES TO FINANCIAL STATEMENTS

10. Endowment Funds, continued

Return Objectives and Risk Parameters

Friends has adopted investment and spending policies for endowment assets that attempt to preserve the purchasing power of the Endowment Fund and at the same time provide a regular and growing distribution of funds for the use of Friends, consistent with the terms of the Endowment Fund Distribution Policy and the terms governing each of the individual endowment funds. A balanced approach is to be taken between risk, preservation of capital, income and growth.

Strategies Employed for Achieving Objectives

To satisfy its investment policy objectives, Friends relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) through equity-based investments and current yield (interest and dividends) through fixed income investments. Friends targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Friends has a policy of appropriating for distribution each year an amount of five percent of its investment portfolio's average asset fair market value over the prior three years. The Board of Directors may request all, a portion, or none of the appropriation be distributed in accordance with the endowment fund's purpose as defined by the endowment agreement or applicable board resolution. Any portion of the distribution not appropriated by the Board shall be kept in the endowment fund, be governed by the endowment investment policy, and be available for future distribution in accordance with the distribution policy.

Endowment net assets composition by type of fund as of June 30, 2018 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
The Mel Swig Endowment Fund	\$ 37,303	\$ 532,152	\$1,462,589	\$2,032,044
The James C. Hormel Endowment Fund	132,091	447,396	861,076	1,440,563
Phyllis C. Wattis Fund for the Main Library	73,270	194,827	1,000,000	1,268,097
The Fritz and Lilian Dannenberg Library Fund	65,000	95,619	255,168	415,787
The Schmulowitz Collection of Wit and Humor Endowment	<u>309</u>	<u>1,156</u>	<u>25,000</u>	<u>26,465</u>
Total	<u>\$307,973</u>	<u>\$1,271,150</u>	<u>\$3,603,833</u>	<u>\$5,182,956</u>

continued

**THE FRIENDS AND FOUNDATION OF THE
SAN FRANCISCO PUBLIC LIBRARY**

NOTES TO FINANCIAL STATEMENTS

10. Endowment Funds, continued

Changes in endowment net assets for the fiscal years ended June 30, 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
Endowment net assets, beginning of year	\$224,448	\$1,228,217	\$3,603,833	\$5,056,498
Interest/dividend income		121,303		121,303
Appropriation of endowment funds for expenditures	83,525	(83,525)		-
Net appreciation	<u> </u>	<u>5,155</u>	<u> </u>	<u>5,155</u>
Endowment net assets, end of year	<u>\$307,973</u>	<u>\$1,271,150</u>	<u>\$3,603,833</u>	<u>\$5,182,956</u>

11. In-kind Donations

In-kind donations for the year ended June 30, 2018 consists of the following:

	<u>Hours</u>	<u>Amount</u>
Donated services		
Book Donation Center	13,391	\$389,544
Readers Fort Mason	5,464	158,948
Big Book Sales	4,014	116,767
Readers Main	2,328	67,722
Step Sales	1,039	30,225
Other	682	<u>19,839</u>
		783,045
Donated material		<u>5,671</u>
		<u>\$788,716</u>

Friends received donated services from individuals who support the mission of the organization. Such services, if not donated, would have been paid for by Friends. Accordingly, Friends has recorded revenue and corresponding expense for the year ended June 30, 2018 amounting to \$788,716. The established fair value of donated services received was based upon the number of hours contributed at appropriate volunteer rate and has been recorded as an in-kind contribution and expense. The volunteer rate is based on yearly earnings provided by the Bureau of Labor Statistics and increased by 12% to estimate for fringe benefits.

**THE FRIENDS AND FOUNDATION OF THE
SAN FRANCISCO PUBLIC LIBRARY**

NOTES TO FINANCIAL STATEMENTS

12. Employee Benefit Plan

Friends has a deferred compensation plan available to all employees who have completed one year and one thousand or more hours of service, as defined. Employees may contribute any percent of their annual compensation provided it does not exceed maximum amounts as permitted by law. For the fiscal year 2017, Friends made discretionary matching contributions equal to three percent of eligible compensation. Employer contributions under this plan for the year ended June 30, 2018 were \$35,384. Plan contributions shall be fully vested and not forfeitable when such plan contributions are made.