

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

FINANCIAL STATEMENTS

JUNE 30, 2023

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INDEPENDENT AUDITORS' REPORT

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

Opinion

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, 2023, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements.

In our opinion, the 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, 2023, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Friends and Foundation of the San Francisco Public Library and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Friends and Foundation of the San Francisco Public Library's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

INDEPENDENT AUDITORS' REPORT

continued

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Friends and Foundation of the San Francisco Public Library's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Friends and Foundation of the San Francisco Public Library's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matter

Report on Summarized Comparative Information

We have previously audited The Friends and Foundation of the San Francisco Public Library's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 16, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Harrington Group

Oakland, California
November 15, 2023

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

STATEMENT OF FINANCIAL POSITION

June 30, 2023

With comparative totals at June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	2023	2022
ASSETS				
Cash and cash equivalents (Note 2)	\$ 532,592	\$ -	\$ 532,592	\$ 134,452
Other receivable	55,440		55,440	19,341
Pledges receivable - net (Note 4)		428,497	428,497	393,862
Prepaid expenses	129,803		129,803	176,285
Investments (Note 5)	2,518,634	5,854,057	8,372,691	6,949,334
Property and equipment (Note 7)	265,088		265,088	318,757
Right-of-use assets - operating leases (Note 8)	324,655		324,655	-
	\$ 3,826,212	\$ 6,282,554	\$ 10,108,766	\$ 7,992,031
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$ 120,322	\$ -	\$ 120,322	\$ 283,077
Accrued vacation payable	101,148		101,148	91,659
Deferred revenue			-	55,000
Right-of-use liabilities - operating leases (Note 8)	324,655		324,655	-
	546,125	-	546,125	429,736
NET ASSETS				
Without donor restrictions	3,280,087		3,280,087	1,306,531
With donor restrictions				
Purpose restrictions (Note 9)		2,678,721	2,678,721	2,652,131
Perpetual in nature (Note 10)		3,603,833	3,603,833	3,603,833
	3,280,087	6,282,554	9,562,641	7,562,495
	\$ 3,826,212	\$ 6,282,554	\$ 10,108,766	\$ 7,992,231

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, 2023

With comparative totals for the year ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	2023	2022
REVENUE AND SUPPORT				
Bequests	\$ 2,977,681	\$ -	\$ 2,977,681	\$ 261,485
Contributions	1,219,546	250,695	1,470,241	1,704,744
Book sales, net of expenses of \$140,293	810,104		810,104	803,195
In-kind donations (Note 11)	436,252		436,252	329,445
Investment income (loss)	316,517	104,426	420,943	(1,928,634)
Special event, net of expenses of \$277,888	231,555		231,555	-
Government contracts and grants	26,400		26,400	1,100
Other income	81	13	94	80
(Loss) on disposal of assets			-	(2,263)
Net assets released from restrictions	328,544	(328,544)	-	-
	6,346,680	26,590	6,373,270	1,169,152
EXPENSES				
Program services	3,308,964		3,308,964	2,724,105
Support services	1,063,960		1,063,960	659,290
	4,372,924	-	4,372,924	3,383,395
CHANGE IN NET ASSETS	1,973,756	26,590	2,000,346	(2,214,243)
NET ASSETS, BEGINNING OF YEAR	1,306,331	6,255,964	7,562,295	9,776,538
NET ASSETS, END OF YEAR	\$ 3,280,087	\$ 6,282,554	\$ 9,562,641	\$ 7,562,295

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, 2023

With comparative totals for the year ended June 30, 2022

	<u>Program Services</u>				Total Program Services	<u>Support Services</u>		Total Support Services	Total Expenses	
	Outreach Series	Volunteers	Library Support	Book Distribution		Management and General	Fundraising		2023	2022
Staff compensation	\$ 177,442	\$ 62,507	\$ 269,549	\$ 487,994	\$ 997,492	\$ 132,807	\$ 321,135	\$ 453,942	\$ 1,451,434	\$ 1,308,700
Taxes and benefits	32,216	20,878	66,654	128,901	248,649	36,003	63,324	99,327	347,976	315,666
Total personnel costs	209,658	83,385	336,203	616,895	1,246,141	168,810	384,459	553,269	1,799,410	1,624,366
Direct project grants			706,158		706,158			-	706,158	715,212
In-kind donations (Note 11)				422,910	422,910	13,342		13,342	436,252	329,445
Contract services	50,118	1,894	7,261	38,600	97,873	220,873	84,907	305,780	403,653	176,523
Advocacy			380,935		380,935			-	380,935	-
Rent	8,751	3,388	12,985	157,301	182,425	6,775	18,067	24,842	207,267	204,258
Supplies	7,779	5,517	1,606	40,195	55,097	5,385	5,037	10,422	65,519	66,526
Depreciation	1,007	390	1,495	52,300	55,192	780	2,079	2,859	58,051	57,832
Rentals and equipment	1,276	230	882	10,807	13,195	41,999	1,227	43,226	56,421	19,407
Printing	3,164	5	19	84	3,272	4,260	25,979	30,239	33,511	14,798
Accounting, audit, and legal	2,664	1,031	3,953	17,443	25,091	2,073	5,489	7,562	32,653	25,900
Utilities	1,272	492	1,888	22,834	26,486	985	2,626	3,611	30,097	23,085
Repairs and maintenance	1,110	430	1,647	23,019	26,206	857	2,291	3,148	29,354	28,496
Bank charges	1,452	562	2,154	14,236	18,404	3,042	3,447	6,489	24,893	23,147
Networking and staff development	113	44	167	738	1,062		23,377	23,377	24,439	2,854
Insurance	1,592	616	2,362	13,864	18,434	1,233	3,287	4,520	22,954	20,925
Telephone	1,332	477	1,828	8,068	11,705	955	4,241	5,196	16,901	17,309
Postage and delivery	60	23	90	921	1,094	838	13,758	14,596	15,690	6,210
Travel	95	14	54	1,552	1,715	7,786	185	7,971	9,686	4,143
Payroll processing	666	258	988	4,362	6,274	516	1,375	1,891	8,165	7,807
Dues and subscriptions	2,588	57	219	1,386	4,250	115	1,087	1,202	5,452	7,839
Licenses and fees	297	57	218	1,977	2,549	114	303	417	2,966	1,963
Advertising	2,496				2,496			-	2,496	5,141
Miscellaneous expenses					-	1		1	1	209
TOTAL 2023 FUNCTIONAL EXPENSES	\$ 297,490	\$ 98,870	\$ 1,463,112	\$ 1,449,492	\$ 3,308,964	\$ 480,739	\$ 583,221	\$ 1,063,960	\$ 4,372,924	
TOTAL 2022 FUNCTIONAL EXPENSES	\$ 271,633	\$ 93,726	\$ 1,061,691	\$ 1,297,055	\$ 2,724,105	\$ 192,278	\$ 467,012	\$ 659,290		\$ 3,383,395

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, 2023

With comparative totals for the year ended June 30, 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 2,000,346	\$ (2,214,243)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	58,051	57,832
Loss on disposal of assets	-	2,263
(Gain) loss on investments	(320,881)	2,037,104
Reinvested interest and dividends	(100,062)	(108,470)
Change in allowance for doubtful accounts	(9,639)	(9,639)
Change in discount on pledges	(10,735)	(10,735)
(Increase) decrease in operating assets:		
Other receivable	(36,099)	(3,268)
Pledges receivable	(14,261)	(9,988)
Prepaid expenses	46,482	(52,636)
Increase (decrease) in operating liabilities:		
Accounts payable	(162,755)	112,059
Accrued vacation payable	9,489	12,039
Deferred revenue	(55,000)	55,000
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,404,936	(132,682)
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(4,382)	(21,178)
Purchase of investments	(1,002,414)	-
Proceeds from sale of investments	-	90,016
 NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES:	(1,006,796)	68,838
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	398,140	(63,844)
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	134,452	198,296
 CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 532,592	\$ 134,452
 NON-CASH INVESTING ACTIVITY:		
Right-of-use assets upon adoption of ASC 842	\$ 505,535	\$ -

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 ("SFPL") and its mission for equitable access to resources for everyone. Friends is dedicated to creating, stewarding, and supporting one of the best public library systems in the country. In fact, 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 beyond what is allocated in the City of San Francisco's budget. During its 60 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 SFPL. 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 support to the SFPL for innovative, free programs and services that are open to everyone across San Francisco in the areas of: children and teens, neighborhood branches, arts and culture, exhibitions, careers and jobs support, ESL, new immigrant support, technology and media learning, remote outreach (bookmobiles), and special collections and infrastructure support for affinity centers throughout the Main Library. Examples of popular programs that rely almost exclusively on Friends' support are One City One Book, the Summer Stride Reading and STEM Program, Tricycle Music Festival, and the publication of *At the Library*, a free newsletter of activities at the Main Library and the 27 branches. Friends' funds also support professional development for library staff, including paying for specialized training and conferences and grants to Librarians to pilot new innovative services that if successful, are often expanded system wide. And finally, Friends support includes additional funds for the library to promote free programs among identified groups of high-need residents, including contracting digital marketing expertise.

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

- Persuasive Advocates committed to a strong and responsive library with reliable public funding.
- Engaged Champions advancing the SFPL'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 4,000 member households, foundations and corporations, and a unique and successful used book program that takes in one million used books and media and resells them in two bookstores and community book events. Friends is a 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 the renovation and rebuilding of 24 neighborhood library branches (the Neighborhood Library Campaign). SFPL 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 \$800,000 for library programs and services that support one or more of the following six SFPL 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 an 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.

THE FRIENDS AND FOUNDATION OF THE SAN FRANCISCO PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

1. **Organization**, continued

Advocacy and Education

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 five 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. In 2007, Friends helped pass a measure (Prop D) that will bring in over \$1.2 billion to the library by renewing the Library Preservation Fund and most recently in 2022, passed the third version of the Library Preservation Fund (Prop F) securing twenty-five years of public funding. 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 inexpensive and free books. Each year, through its Community Book Program ("CBP"), Friends takes in over one million 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 SFPL also selectively acquires rare books from Friends that enhance SFPL's collections. Many books are also donated to schools and other non-profit organizations through Friends' CBP.

This fiscal year, Friends re-engineered what has been known as Books Operations into the Book Program, embracing its activities more accurately and fueling its growth as a valuable community asset that supports SFPL's mission for literacy and literary engagement. The Book Programs' 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 program in which over 400 volunteers help in the Book Program, administrative office, and at Friends' community events. In all of these activities, they 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 SFPL in the course of producing and sharing their work in the community. Five resident authors now work in designated space Friends office (the Writers' Studio) 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.

Net Assets

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

Without Donor Restrictions. Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

With Donor Restrictions. Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

THE FRIENDS AND FOUNDATION OF THE SAN FRANCISCO PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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 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 Finance Committee under the direction of 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.

Recently Adopted Accounting Pronouncement

Friends adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, as amended. This guidance is intended to improve financial reporting of lease transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights and obligations created by leases that extend more than 12 months. Key provisions in this guidance include additional disclosures surrounding the amount, timing, and uncertainty of cash flows arising from leases.

This Standard is effective for annual financial statements issued for fiscal years beginning after December 15, 2021. Friends financial statements for the year ended June 30, 2023 are presented in accordance with ASU 2016-02.

Right-of-Use Assets and Liabilities - Operating Leases

Friends recognizes and measures its leases in accordance with FASB ASC 842, *Leases*. Friends has a lessee in a noncancellable operating lease for office equipment. Friends determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of an existing contract are changed. Friends recognizes a lease liability and a Right-of-Use (“ROU”) asset at the commencement date of the lease.

The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. The discount rate is the implicit rate if it is readily determinable or otherwise Friends uses its incremental borrowing rate based on the information available at the commencement date for all leases.

THE FRIENDS AND FOUNDATION OF THE SAN FRANCISCO PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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. Refer to Notes 6 and 11 for further disclosures.

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.

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, 2022, from which the summarized information was derived.

THE FRIENDS AND FOUNDATION OF THE SAN FRANCISCO PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Subsequent Events

Management has evaluated subsequent events through November 15, 2023, 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. Liquidity and Availability of Resources

Friends has \$5,701,035 of financial assets available within one year of the financial position date to meet cash needs for general expenditures. This consists of cash and cash equivalents of \$532,592, contributions and other receivables of \$480,909, and short-term investments of \$4,768,857. Financial assets totaling \$2,678,721 that are available within one year are subject to donor restrictions for program expenditure at the San Francisco Public Library as part of Friends annual grant funding. The contributions receivables are subject to time restriction but are expected to be collected within one year including recurring planned gifts from donor advised charitable funds.

Friends has a goal to maintain sixty days of normal operating expenses in cash and short-term investments, which are on average, approximately \$500,000. It has a policy to structure its financial assets to be available as its general expenditures, liabilities and grant obligations come due. It considers investment income without donor restrictions, appropriated earnings from donor-restricted endowments, contributions without donor restrictions and contributions with donor restrictions for use in current programs that are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. As part of its liquidity management, cash in excess of \$500,000 is transferred to short-term investments for prudent cash management.

Friends receives gifts to establish endowments that will exist in perpetuity and the income generated from such endowments are used to fund programs and general expenditures. As of June 30, 2023, Friends has \$3,603,833 in donor restricted endowments. Although Friends does not intend to spend from the endowment funds other than amounts appropriated for general expenditures as part of its annual budget approval and appropriation process, amounts from its endowments could be made available if necessary. However, some endowments contain investments with lock-up provisions that would reduce the total investments that could be made available. Because a donor's restriction requires certain resources to be used in a particular manner in the future, Friends maintains sufficient resources to meet those responsibilities to its donors.

Friends has an annual grant making cycle with the San Francisco Public Library through the Library Support Committee. The Library Support Committee meets annually to review and approve grant requests from the library. Friends strives to maintain financial assets available to meet general expenditures at a level that represents 25% of the annual direct library support grant commitments approved by the Library Support Committee.

**THE FRIENDS AND FOUNDATION OF THE
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NOTES TO FINANCIAL STATEMENTS

3. Liquidity and Availability of Resources, continued

Friends manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that long-term grant commitments and obligations under endowments with donor restrictions that support mission fulfillment will continue to be met, ensuring the sustainability of the organization.

The table below presents financial assets available for general expenditures within one year at June 30, 2023:

Financial assets at year:	
Cash and cash equivalents	\$ 532,592
Pledges receivable	428,497
Other receivable	55,440
Investments	<u>8,372,691</u>
Total financial assets	<u>9,389,220</u>
Less amount not available to be used within one year:	
Pledges receivable due after one year, net	84,350
Investments held for restricted endowments	<u>3,603,833</u>
Financial assets not available to be used within one year	<u>3,688,183</u>
	<u>\$5,701,037</u>

4. Pledges Receivable, Net

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, 2023, 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, 2023 of \$428,497 is expected to be collected as follows:

<u>Year ending June 30,</u>	
2024	\$366,205
2025	74,350
2026	<u>10,000</u>
	450,555
Less: allowance for doubtful pledges receivable	<u>(22,058)</u>
	<u>\$428,497</u>

continued

**THE FRIENDS AND FOUNDATION OF THE
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NOTES TO FINANCIAL STATEMENTS

5. Investments

Investments at June 30, 2023 consist of the following:

Fixed income	\$5,439,355
Equities	2,447,877
Cash equivalents	<u>485,459</u>
	<u>\$8,372,691</u>

Changes in investments for the year ended June 30, 2023 are as follows:

Investments, beginning of year	\$6,949,334
Interest and dividends	100,062
Gain on investments	320,881
Sale of investments	<u>1,002,414</u>
Investments, end of year	<u>\$8,372,691</u>

6. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2023 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income				
Fixed income intermediate	\$ -	\$5,439,355	\$ -	\$5,439,355
Equities	2,447,877			2,447,877
Cash equivalents	<u>485,459</u>			<u>485,459</u>
	<u>\$2,933,336</u>	<u>\$5,439,355</u>	<u>\$ -</u>	<u>\$8,372,691</u>

The fair values of equities and cash equivalents 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 table below present transactions measured at fair value on a non-recurring basis during the year ended June 30, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributed services	\$ -	\$436,252	\$ -	\$436,252
Pledged contributions – current year			<u>398,600</u>	<u>398,600</u>
	<u>\$ -</u>	<u>\$436,252</u>	<u>\$398,600</u>	<u>\$834,852</u>

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

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NOTES TO FINANCIAL STATEMENTS

6. Fair Value Measurements, continued

The fair value of pledged contributions – current year has been measured on a non-recurring basis using the value provided by the donor at the date of pledge and based on evaluating the credit worthiness of the donor (Level 3 inputs).

7. Property and Equipment

Property and equipment at June 30, 2023 consist of the following:

Leasehold improvements	\$ 857,695
Computers and software	321,069
Furniture and equipment	<u>256,474</u>
	1,435,238
Less: accumulated depreciation	<u>(1,170,150)</u>
	<u>\$ 265,088</u>

Depreciation expense for the year ended June 30, 2023 was \$58,051.

8. Right-of-Use Assets and Liabilities – Operating Leases

Friends has an operating lease for its office space, which has been recorded in compliance with Accounting Standards Update (ASU) 2016-02. The operating lease monthly payments remains the same throughout the term of the lease. The ROU assets represent Friends right to use underlying assets for the lease term, and lease liabilities represent Friends obligation to make lease payments arising from this lease. The ROU assets and lease liabilities, all of which arise from operating lease, were calculated based on the present value of future lease payments over the lease terms. Friends has made an election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments. The discount rate applied to calculate lease liabilities as of June 30, 2023, was 2.8%. The lease payments are recognized as equal to rent payments regardless of the point in time during the duration of the lease.

Friends recognized ROU assets of \$324,655 and operating lease liabilities totaling \$324,655 in its Statement of Financial Position as of June 30, 2023.

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NOTES TO FINANCIAL STATEMENTS

8. Right-of-Use Assets and Liabilities – Operating Leases, continued

Future minimum payments, by year and in the aggregate, under this lease consists of the following:

<u>Year ending June 30,</u>	
2024	\$200,888
2025	<u>136,578</u>
Total lease payments	337,466
Less: present value discount	<u>(12,811)</u>
	<u>\$324,655</u>

Rental expense under operating leases for the year ended June 30, 2023 was \$207,267.

9. Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2023 consist of the following:

Subject to expenditure for specified purpose:	
Branch library support	\$ 535,015
Project read	400,258
Affinity groups and centers	177,297
Children's programming	136,378
Programs and exhibitions	69,928
Other	65,838
Capital projects	45,260
Dannenberg collection	<u>34,669</u>
	<u>1,464,643</u>

Endowments:

Subject to appropriation and expenditures when a specific event occurs:	
Restricted by donors for	
affinity groups and centers	852,573
Other	326,837
Branch library support	<u>34,668</u>
Total endowment	<u>1,214,078</u>
Total purpose restrictions	<u>\$2,678,721</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 FRIENDS AND FOUNDATION OF THE SAN FRANCISCO PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

10. Endowment Funds, continued

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.

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.

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10. Endowment Funds, continued

Endowment net assets composition by type of fund as of June 30, 2023 is as follows:

	<u>With Donor Restrictions</u>
Donor-restricted endowment funds:	
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$3,603,833
Accumulated investment gains	<u>1,165,990</u>
	<u>\$4,769,823</u>

Changes in endowment net assets for the year ended June 30, 2023 are as follows:

	<u>With Donor Restrictions</u>
Endowment net assets, beginning of year	\$4,710,844
Interest/dividend income	110,107
Appropriation of endowment funds for expenditures	(266,735)
Net appreciation	<u>215,607</u>
Endowment net assets, end of year	<u>\$4,769,823</u>

Net assets with donor restrictions perpetual in nature 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, 2023, they 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>

continued

**THE FRIENDS AND FOUNDATION OF THE
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11. In-kind Donations

In kind donations for the year ended June 30, 2023 consists of the following:

Donated services:	<u>Hours</u>	<u>Amount</u>
Book donation center	5,031	\$187,757
Online sales	2,728	101,809
Main book store	1,872	69,863
Step sales	1,307	48,777
Book sales at DC	394	14,704
Board of Directors	358	<u>13,342</u>
		<u>\$436,252</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, 2023 amounting to \$436,252 of which \$422,910 was for its Book Distribution Program and \$13,342 for Management and General. There were no donor restrictions on the in-kind donations as of June 30, 2023.

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 current rate for the State of California is \$37.32.

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 2023, Friends made discretionary matching contributions equal to three percent of eligible compensation. Employer contributions under this plan for the year ended June 30, 2023 were \$33,002. Plan contributions shall be fully vested and not forfeitable when such plan contributions are made.