

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

FINANCIAL STATEMENTS

JUNE 30, 2013

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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, 2013, and the related Statements of Activities, Statement of 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, 2013, 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 Matters*Summarized Comparative Information*

We have previously audited The Friends and Foundation of the San Francisco Public Library's 2012 financial statements, and our report dated November 30, 2012 expressed an unmodified opinion on those financial statements. In our opinion the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.



San Francisco, California
September 27, 2013

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

STATEMENT OF FINANCIAL POSITION

June 30, 2013

With comparative totals at June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013	2012
Assets					
Cash and cash equivalents (Note 2)	\$ 418,712	\$ -	\$ -	\$ 418,712	\$ 67,611
Other receivable	6,175			6,175	7,651
Bequest receivable	33,842			33,842	32,230
Pledges receivable - net (Note 3)		1,393,413		1,393,413	1,914,605
Prepaid expenses	84,666			84,666	56,800
Investments (Note 4)	1,099,438	1,050,211	3,603,833	5,753,482	7,854,442
Property and equipment (Note 6)	171,553			171,553	199,216
Total assets	\$ 1,814,386	\$ 2,443,624	\$ 3,603,833	\$ 7,861,843	\$ 10,132,555
Liabilities and net assets					
Liabilities					
Accounts payable	\$ 144,598	\$ -	\$ -	\$ 144,598	\$ 235,511
Accrued vacation payable	73,958			73,958	78,437
Note payable	-			-	1,000,000
Total liabilities	218,556	-	-	218,556	1,313,948
Net assets					
Unrestricted	1,595,830			1,595,830	2,559,883
Temporarily restricted (Note 8)		2,443,624		2,443,624	2,654,891
Permanently restricted (Note 9)			3,603,833	3,603,833	3,603,833
Total net assets	1,595,830	2,443,624	3,603,833	7,643,287	8,818,607
Total liabilities and net assets	\$ 1,814,386	\$ 2,443,624	\$ 3,603,833	\$ 7,861,843	\$ 10,132,555

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, 2013
With comparative totals for the year ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2013</u>	<u>2012</u>
Revenue and support					
Contributions	\$ 544,972	\$ 703,725	\$ -	\$ 1,248,697	\$ 3,193,707
Book sales net of expenses of \$52,569	1,225,947			1,225,947	1,308,161
In-kind donations (Note 2)	551,183			551,183	726,535
Investment income	48,337			48,337	311,471
Bequests	299,802	3,430		303,232	119,912
Café sales				-	85,481
Government contracts and grants	32,665			32,665	54,567
Other income	263			263	874
(Loss) on disposal of property and equipment	-			-	(335,857)
Net assets released from program restrictions	918,422	(918,422)		-	-
Total revenue and support	<u>3,621,591</u>	<u>(211,267)</u>	<u>-</u>	<u>3,410,324</u>	<u>5,464,851</u>
Expenses					
Program services	3,872,729			3,872,729	4,634,074
Support services	712,915			712,915	946,621
Total expenses	<u>4,585,644</u>	<u>-</u>	<u>-</u>	<u>4,585,644</u>	<u>5,580,695</u>
Change in net assets	(964,053)	(211,267)	-	(1,175,320)	(115,844)
Net assets, beginning of year	<u>2,559,883</u>	<u>2,654,891</u>	<u>3,603,833</u>	<u>8,818,607</u>	<u>8,934,451</u>
Net assets, end of year	<u>\$ 1,595,830</u>	<u>\$ 2,443,624</u>	<u>\$ 3,603,833</u>	<u>\$ 7,643,287</u>	<u>\$ 8,818,607</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, 2013

With comparative totals for the year ended June 30, 2012

	Program Services				Total Program Services	Support Services			Total Support Services	Total Expenses	
	Outreach Series	Volunteers	Library Support	Book Distribution		Management and General	Café	Fundraising		2013	2012
Staff compensation	\$ 215,952	\$ 51,691	\$ 275,041	\$ 454,927	\$ 997,611	\$ 93,501	\$ -	\$ 271,842	\$ 365,343	\$ 1,362,954	\$ 1,470,281
Taxes and benefits	57,996	17,634	63,495	158,616	297,741	26,362	-	56,543	82,905	380,646	435,572
Total personnel costs	273,948	69,325	338,536	613,543	1,295,352	119,863	-	328,385	448,248	1,743,600	1,905,853
Direct project grants			1,133,378		1,133,378				-	1,133,378	1,509,854
In-kind expenses	111,609	47,220	99,591	204,333	462,753	21,464		66,966	88,430	551,183	726,535
Rent	16,910	7,154	15,089	268,866	308,019	3,252		10,146	13,398	321,417	394,465
Contract services	26,563	19,051	19,508	134,473	199,595	4,204		76,438	80,642	280,237	357,680
Supplies	29,775	9,736	6,050	58,931	104,492	1,303		23,536	24,839	129,331	116,505
Repairs and maintenance	6,341	2,683	5,658	34,017	48,699	1,219		11,195	12,414	61,113	50,195
Rentals - equipment	6,574	436	921	47,415	55,346	198		619	817	56,163	48,334
Bank charges	2,818	1,192	2,515	45,050	51,575	542		2,210	2,752	54,327	56,153
Depreciation	1,524	645	1,360	33,417	36,946	293		915	1,208	38,154	70,076
Postage and delivery	413	248	296	26,194	27,151	64		7,707	7,771	34,922	51,958
Utilities	3,002	1,270	2,679	21,995	28,946	577		1,801	2,378	31,324	28,403
Travel	18,443	275	438	6,539	25,695	94		1,947	2,041	27,736	22,405
Accounting, audit and legal	5,366	2,270	4,788	9,824	22,248	1,032		3,220	4,252	26,500	40,001
Telephone	1,457	616	1,300	18,247	21,620	280		2,929	3,209	24,829	30,685
Insurance	3,216	1,361	2,870	7,721	15,168	618		1,930	2,548	17,716	17,936
Printing	4,179	64	134	8,129	12,506	29		3,337	3,366	15,872	43,354
Interest expense	1,814	767	1,619	3,321	7,521	349		1,088	1,437	8,958	20,333
Professional consulting fees				2,040	2,040			5,856	5,856	7,896	58,122
Dues and subscriptions	546	231	487	1,739	3,003	105		3,783	3,888	6,891	3,086
Payroll processing	1,130	478	1,008	2,069	4,685	217		678	895	5,580	6,527
Networking - staff development	772	327	689	1,413	3,201	148		2,227	2,375	5,576	20,610
Advertising	1,630	55	116	328	2,129	25		78	103	2,232	1,085
Licenses and fees	61	26	54	520	661	12		36	48	709	540
Total 2013 functional expenses	\$ 518,091	\$ 165,430	\$ 1,639,084	\$ 1,550,124	\$ 3,872,729	\$ 155,888	\$ -	\$ 557,027	\$ 712,915	\$ 4,585,644	
Total 2012 functional expenses	\$ 579,010	\$ 246,740	\$ 2,134,891	\$ 1,673,433	\$ 4,634,074	\$ 174,434	\$ 134,572	\$ 637,615	\$ 946,621		\$ 5,580,695

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, 2013

With comparative totals for the year ended June 30, 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ (1,175,320)	\$ (115,844)
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Depreciation	38,154	70,076
Loss on disposal of property and equipment	-	335,857
Loss on investments	102,851	11,951
Reinvested interest and dividends	(151,080)	(323,288)
Change in allowance for doubtful account	(24,213)	50,871
Change in discount on pledges	(59,992)	50,420
Changes in operating assets and liabilities:		
Decrease in other receivable	1,476	2,401
(Increase) in bequest receivable	(1,612)	(1,534)
Decrease (increase) in pledges receivable	605,397	(1,271,771)
(Increase) decrease in prepaid expenses	(27,866)	34,682
(Decrease) increase in accounts payable	(90,913)	144
(Decrease) in accrued vacation payable	(4,479)	(41,883)
Net cash (used) by operating activities	(787,597)	(1,197,918)
Cash flows from investing activities:		
Purchase of property and equipment	(10,491)	(42,733)
Proceeds from sale of investments	7,174,237	6,391,490
Purchase of investments	(5,025,048)	(5,291,924)
Net cash provided by investing activities	2,138,698	1,056,833
Cash flows from financing activities:		
Principal payments on note payable	(1,000,000)	-
Net cash (used) by financing activities	(1,000,000)	-
Net increase (decrease) in cash and cash equivalents	351,101	(141,085)
Cash and cash equivalents, beginning of year	67,611	208,696
Cash and cash equivalents, end of year	\$ 418,712	\$ 67,611
Supplemental disclosure:		
Operating activities reflected interest paid of:	\$ 8,958	\$ 20,333

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”). Friends is dedicated to creating, stewarding, and supporting one of the best public library systems in the country. 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, furniture, fixtures, equipment and special collections beyond what is allocated in the City of San Francisco's budget. During its 50 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 grant making program that funds various library programs and activities. As a community foundation, Friends awards grants that sponsor instructive, innovative and informative free programs and services that are open to everyone across San Francisco such as One City One Book, Tricycle Music Festival, and the publication of At the Public Library, a free newsletter of activities at the Main library and all the 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; to museum-quality literary arts exhibits both in the Main Library and branches. Grants also support library staff development and other library projects, such as the Learning Differences Center, Stegner Environmental Center, the James C. Hormel Gay and Lesbian Center, the Chinese and African American Centers.

Fundraising and the Neighborhood Library Capital Campaign

Friends’ financial support of the library comes 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. As a community foundation, Friends unites a family of supporters who share a common vision of excellence for the San Francisco Public Library and provides those supporters with a variety of opportunities to participate as donors, volunteers and advocates.

While past fundraising successes included \$32 million for the new Main Library, San Francisco's libraries have entered a new era, one that embraces cultural competency and 21st century technology. The San Francisco Public Library's Branch Library Improvement Project is renovating seventeen neighborhood libraries and moving seven branches from small, leased spaces to larger, new city-owned buildings thanks to a bond measure spearheaded by Friends and passed overwhelmingly by voters in 2000. Friends' Neighborhood Library Capital Campaign (“NLC”) has raised over \$13 million, to equip and furnish these twenty-four branches. Our efforts will strengthen communities; promote access to knowledge, support education, and make San Francisco a better place for all of us to live. So far, twenty-three of the twenty-four branches have been completed. The Bayview-Hunter’s Point branch was completed in 2013 and the North Beach branch will be completed in early 2014.

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 20 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). In the future, we will continue to work with elected officials, community groups, and library administration to ensure a premier library system for San Francisco.

Programming

Through ongoing efforts to support the library, Friends connects readers with books and authors. Each year, Friends receives over 1,000,000 donated books, which it in turn resells to the public through two bookstores, online sales and a number of book sales (including the largest book sale on the west coast). The San Francisco Public Library also selectively acquires books from donated books to enhance the Library's collections. All proceeds benefit the Library and 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 like a special reception and screening of "Never Stand Still". In addition, Friends hosts quarterly after hours event for its members in a branch library with a special program focus for each event.

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:

THE FRIENDS AND FOUNDATION OF THE SAN FRANCISCO PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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 program or capital restrictions.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources 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 value 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

continued

THE FRIENDS AND FOUNDATION OF THE SAN FRANCISCO PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Friends is required to measure the following assets and revenue at fair value: non-cash contributions and certain investments. 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.

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 \$551,183.

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.

THE FRIENDS AND FOUNDATION OF THE SAN FRANCISCO PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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, 2012 from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through September 27, 2013, the date which the financial statements were available.

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, 2013, and a discount rate of 2.35% has been used to calculate the present value of pledges receivable. Total amount of pledges receivable at June 30, 2013 of \$1,393,413 is expected to be collected as follows:

continued

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

NOTES TO FINANCIAL STATEMENTS

3. Pledges Receivable, continued

<u>Year ended June 30,</u>	
2014	\$1,054,034
2015	216,209
2016	189,975
2017	12,000
2018	12,000
Thereafter	<u>16,000</u>
	1,500,218
Less: Allowance for doubtful pledges receivable	(60,010)
Unamortized discount on pledges receivable	<u>(46,795)</u>
	<u>\$1,393,413</u>

4. Investments

Investments at June 30, 2013 consist of the following:

Mutual funds	\$3,019,151
Common stocks	1,211,494
Bond funds	1,456,913
Money market	<u>65,924</u>
	<u>\$5,753,482</u>

Changes in investments for the fiscal year ended June 30, 2013 are as follows:

Investments, beginning of year	\$ 7,854,442
Interest and dividends	151,080
Loss on investments	(102,851)
Purchase of investments	5,025,048
Sale of investments	<u>(7,174,237)</u>
Investments, end of year	<u>\$ 5,753,482</u>

5. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2013 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$3,019,151	\$ -	\$ -	<u>\$3,019,151</u>
Common stocks	1,211,494			<u>1,211,494</u>
Bond funds	<u>1,456,913</u>			<u>1,456,913</u>
	<u>\$5,687,558</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$5,687,558</u>

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

continued

**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, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributed services	\$ -	\$551,183	\$ -	\$551,183
	<u>\$ -</u>	<u>\$551,183</u>	<u>\$ -</u>	<u>\$551,183</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).

6. Property and Equipment

Property and equipment at June 30, 2013 consist of the following:

Leasehold improvements	\$ 409,713
Furniture and equipment	217,530
Computers and software	<u>197,279</u>
	824,522
Less: accumulated depreciation	<u>(652,969)</u>
	<u>\$ 171,553</u>

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>	
2014	\$ 179,895
2015	185,291
2016	190,850
2017	159,913
2018	91,842
Thereafter	<u>313,792</u>
	<u>\$1,121,583</u>

Rental expense under operating leases for the year ended June 30, 2013 was \$321,417.

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, 2013 consist of the following:

Capital projects	\$ 586,303
Branch library support	485,533
Affinity groups and centers	475,301
Project Read	228,983
Children's programming	189,888
Dannenberg collection	126,513
Programs and exhibitions	10,004
Other	<u>341,099</u>
	<u>\$2,443,624</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, 2013, 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.

continued

THE FRIENDS AND FOUNDATION OF THE SAN FRANCISCO PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

10. Endowment Funds, continued

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or Board of Trustees requires Friends to retain as a fund of perpetual duration. The James C. Hormel Endowment Fund and The Fritz and Lilian Dannenberg Library Fund had deficiencies of this nature as of June 30, 2013.

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.

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

10. Endowment Funds, continued

Endowment net assets composition by type of fund as of June 30, 2013 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
The Mel Swig Endowment Fund	\$ 21,409	\$230,159	\$1,462,589	\$1,714,157
Phyllis C. Wattis Fund for the Main Library	7,779	113,197	1,000,000	1,120,976
The James C. Hormel Endowment Fund	(6,010)	329,994	861,076	1,185,060
The Fritz and Lilian Dannenberg Library Fund	(16,195)	126,513	255,168	365,486
The Schmulowitz Collection of Wit and Humor Endowment	<u>18</u>	<u>1,386</u>	<u>25,000</u>	<u>26,404</u>
Total funds	<u>\$ 7,001</u>	<u>\$801,249</u>	<u>\$3,603,833</u>	<u>\$4,412,083</u>

Friends has elected to maintain permanently restricted net assets at its original corpus, accordingly on an annual basis any deficit is funded from unrestricted net assets.

Changes in endowment net assets for the fiscal years ended June 30, 2013 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	\$(28,654)	\$ 854,342	\$3,603,833	\$4,429,521
Interest/dividend income		118,849		118,849
Appropriation of endowment funds for expenditures	36,434	(36,434)		-
Net appreciation/ (depreciation)	<u>(779)</u>	<u>(135,508)</u>	<u>-</u>	<u>(136,287)</u>
Endowment net assets, end of year	<u>\$ 7,001</u>	<u>\$ 801,249</u>	<u>\$3,603,833</u>	<u>\$4,412,083</u>

11. 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. Friends made discretionary matching contributions equal to three percent of eligible compensation. Plan contributions shall be fully vested and not forfeitable when such plan contributions are made. Employer contributions under this plan for the year ended June 30, 2013 were \$29,361.