

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

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**FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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Harrington Group

Certified Public Accountants, LLP

## INDEPENDENT AUDITORS' REPORT

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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, 2017, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matter

#### *Summarized Comparative Information*

We have previously audited The Friends and Foundation of the San Francisco Public Library's 2016 financial statements, and expressed an unmodified audit opinion on those audited financial statements in our report dated September 8, 2016. In our opinion the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Harrington Group*

San Francisco, California  
October 5, 2017

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

STATEMENT OF FINANCIAL POSITION

June 30, 2017

With comparative totals at June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>					
Cash and cash equivalents (Note 2)	\$ 578,349	\$ -	\$ -	\$ 578,349	\$ 277,617
Other receivable	31,357			31,357	46,286
Pledges receivable - net (Note 3)		254,826		254,826	285,019
Prepaid expenses	76,796			76,796	97,330
Investments (Note 4)	622,691	2,080,474	3,603,833	6,306,998	6,285,862
Property and equipment (Note 6)	479,160			479,160	565,934
<b>TOTAL ASSETS</b>	<u>\$ 1,788,353</u>	<u>\$ 2,335,300</u>	<u>\$ 3,603,833</u>	<u>\$ 7,727,486</u>	<u>\$ 7,558,048</u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 167,702	\$ -	\$ -	\$ 167,702	\$ 259,758
Accrued vacation payable	61,464			61,464	70,933
<b>TOTAL LIABILITIES</b>	<u>229,166</u>	<u>-</u>	<u>-</u>	<u>229,166</u>	<u>330,691</u>
<b>NET ASSETS</b>					
Unrestricted	1,559,187			1,559,187	1,262,916
Temporarily restricted (Note 8)		2,335,300		2,335,300	2,360,608
Permanently restricted (Note 9)			3,603,833	3,603,833	3,603,833
<b>TOTAL NET ASSETS</b>	<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>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 1,788,353</u>	<u>\$ 2,335,300</u>	<u>\$ 3,603,833</u>	<u>\$ 7,727,486</u>	<u>\$ 7,558,048</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, 2017

With comparative totals for the year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017</u>	<u>2016</u>
<b>REVENUE AND SUPPORT</b>					
Book sales, net of expenses of \$87,958	\$ 1,166,098	\$ -	\$ -	<b>\$ 1,166,098</b>	\$ 1,136,791
Contributions	781,612	247,229		<b>1,028,841</b>	1,163,930
Bequests	908,345	20,181		<b>928,526</b>	312,364
In-kind donations (Note 2)	724,602			<b>724,602</b>	682,924
Investment income	197,668	126,252		<b>323,920</b>	126,708
Special events, net of expenses of \$166,850	152,250			<b>152,250</b>	255,606
Government contracts and grants	50,000			<b>50,000</b>	18,850
Other income	34	45		<b>79</b>	161
Net assets released from purpose restrictions	419,015	(419,015)		<b>-</b>	-
<b>TOTAL REVENUE AND SUPPORT</b>	<b>4,399,624</b>	<b>(25,308)</b>	<b>-</b>	<b>4,374,316</b>	<b>3,697,334</b>
<b>EXPENSES</b>					
Program services	3,556,719			<b>3,556,719</b>	3,499,492
Support services	546,634			<b>546,634</b>	562,139
<b>TOTAL EXPENSES</b>	<b>4,103,353</b>	<b>-</b>	<b>-</b>	<b>4,103,353</b>	<b>4,061,631</b>
<b>CHANGE IN NET ASSETS</b>	<b>296,271</b>	<b>(25,308)</b>	<b>-</b>	<b>270,963</b>	<b>(364,297)</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>1,262,916</b>	<b>2,360,608</b>	<b>3,603,833</b>	<b>7,227,357</b>	<b>7,591,654</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 1,559,187</b>	<b>\$ 2,335,300</b>	<b>\$ 3,603,833</b>	<b>\$ 7,498,320</b>	<b>\$ 7,227,357</b>

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, 2017

With comparative totals for the year ended June 30, 2016

	Program Services				Support Services		Total Support Services	Total Expenses	
	Outreach Series	Volunteers	Library Support	Book Distribution	Management and General				2017
					Total Program Services	Fundraising			
Staff compensation	\$ 140,611	\$ 73,477	\$ 286,109	\$ 616,394	\$ 79,722	\$ 162,727	\$ 242,449	\$ 1,359,040	\$ 1,067,072
Taxes and benefits	27,333	14,091	67,163	174,513	19,641	27,785	47,426	330,526	294,449
Total personnel costs	167,944	87,568	353,272	790,907	99,363	190,512	289,875	1,689,566	1,361,521
In-kind expenses	68,646	49,578	158,268	341,326	28,603	78,181	106,784	724,602	682,924
Direct project grants			630,616					630,616	738,164
Rent	12,197	8,809	28,121	338,985	5,083	13,891	18,974	407,086	393,322
Contract services	6,320	2,916	9,309	67,382	1,682	40,586	42,268	128,195	366,437
Depreciation	1,772	1,280	4,085	75,215	738	2,018	2,756	85,108	70,342
Supplies	2,401	10,723	2,589	43,104	465	7,751	8,216	67,033	61,765
Utilities	1,817	1,217	3,885	45,515	702	1,919	2,621	55,055	54,668
Repairs and maintenance	1,336	4,462	3,080	30,353	557	13,532	14,089	53,320	58,125
Postage and delivery	110	126	254	37,468	46	9,013	9,059	47,017	39,905
Bank charges	2,202	1,590	5,077	26,236	918	2,508	3,426	38,531	56,879
Rentals - equipment	943	681	2,174	29,523	393	1,074	1,467	34,788	60,005
Printing	7,355	299	147	1,407	27	21,443	21,470	30,678	18,893
Accounting, audit, and legal	2,492	1,799	5,744	12,389	1,038	2,838	3,876	26,300	29,301
Telephone	925	560	1,787	16,357	323	883	1,206	20,835	18,042
Insurance	1,657	1,197	3,821	10,195	691	1,888	2,579	19,449	19,146
Advertising	9,141								
Networking - staff development	10	7	23	49	4	11,118	11,122	11,456	2,288
Travel	70	3,436	72	4,798	13	165	178	8,554	11,966
Payroll processing	630	455	1,452	3,132	262	717	979	6,648	6,180
Dues and subscriptions	1,054	8	24	946	4	3,265	3,269	5,301	3,784
Licenses and fees	34	24	78	1,763	14	91	105	2,004	4,479
<b>TOTAL 2017 FUNCTIONAL EXPENSES</b>	<b>\$ 289,056</b>	<b>\$ 176,735</b>	<b>\$ 1,213,878</b>	<b>\$ 1,877,050</b>	<b>\$ 140,926</b>	<b>\$ 405,708</b>	<b>\$ 546,634</b>	<b>\$ 4,103,353</b>	
<b>TOTAL 2016 FUNCTIONAL EXPENSES</b>	<b>\$ 382,805</b>	<b>\$ 171,090</b>	<b>\$ 1,255,694</b>	<b>\$ 1,689,903</b>	<b>\$ 124,075</b>	<b>\$ 438,064</b>	<b>\$ 562,139</b>	<b>\$ 4,061,631</b>	

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, 2017

With comparative totals for the year ended June 30, 2016

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 270,963	\$ (364,297)
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Depreciation	85,108	70,342
Write-off of property and equipment	39,800	-
(Gain) on investments	(239,112)	(17,898)
Reinvested interest and dividends	(155,781)	(182,358)
Change in allowance for doubtful accounts	(1,208)	(5,189)
Change in discount on pledges	1,181	274
(Increase) decrease in operating assets:		
Other receivable	14,929	(17,465)
Pledges receivable	30,220	129,727
Prepaid expenses	20,534	4,279
Increase (decrease) in operating liabilities:		
Accounts payable	(92,056)	69,549
Accrued vacation payable	(9,469)	(5,873)
<b>NET CASH (USED) BY OPERATING ACTIVITIES</b>	<b>(34,891)</b>	<b>(318,909)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(38,134)	(247,062)
Proceeds from sale of investments	374,744	61,430
Purchase of investments	(987)	(1,823)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES:</b>	<b>335,623</b>	<b>(187,455)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>300,732</b>	<b>(506,364)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>277,617</b>	<b>783,981</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 578,349</b>	<b>\$ 277,617</b>

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

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### 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 21<sup>st</sup> Century community. 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, 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 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 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 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 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.

continued



# THE FRIENDS AND FOUNDATION OF THE SAN FRANCISCO PUBLIC LIBRARY

## NOTES TO FINANCIAL STATEMENTS

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### 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 21<sup>st</sup> 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 21<sup>st</sup> 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.

#### 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.

continued

# THE FRIENDS AND FOUNDATION OF THE SAN FRANCISCO PUBLIC LIBRARY

## NOTES TO FINANCIAL STATEMENTS

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### 1. **Organization**, continued

#### **Community Programming**

Through ongoing efforts to support the library, Friends connects readers with books and authors. Each year, through its *Book Operations*, 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 Literacy Program (CLiP)* 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. CLiP'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.

### 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.

continued

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

NOTES TO FINANCIAL STATEMENTS

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**2. Summary of Significant Accounting Policies, continued**

**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 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.

continued

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

NOTES TO FINANCIAL STATEMENTS

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**2. Summary of Significant Accounting Policies, continued**

**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 \$724,165 (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.

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

NOTES TO FINANCIAL STATEMENTS

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**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, 2016 from which the summarized information was derived.

**Subsequent Events**

Management has evaluated subsequent events through October 5, 2017, 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.

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

NOTES TO FINANCIAL STATEMENTS

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**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, 2017, 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, 2017 of \$254,826 is expected to be collected as follows:

<u>Year ended June 30,</u>	
2018	\$198,064
2019	23,400
2020	17,500
2021	17,500
2022	<u>12,000</u>
	268,464
Less: Allowance for doubtful pledges receivable	(10,739)
Unamortized discount on pledges receivable	<u>(2,899)</u>
	<u>\$254,826</u>

**4. Investments**

Investments at June 30, 2017 consist of the following:

Fixed income	\$3,802,314
Equities	2,231,086
Cash equivalents	<u>273,598</u>
	<u>\$6,306,998</u>

Changes in investments for the fiscal year ended June 30, 2017 are as follows:

Investments, beginning of year	\$6,285,862
Interest and dividends	155,781
Gain on investments	239,112
Purchase of investments	987
Sale of investments	<u>(374,744)</u>
Investments, end of year	<u>\$6,306,998</u>

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**5. Fair Value Measurements**

The table below presents the balances of assets measured at fair value at June 30, 2017 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 273,598	\$ -	\$ -	\$ 273,598
Fixed income				
Fixed income intermediate		1,905,248		1,905,248
Taxable corporate		1,399,133		1,399,133
Other		<u>497,933</u>		<u>497,933</u>
Total fixed income	<u>-</u>	<u>3,802,314</u>	<u>-</u>	<u>3,802,314</u>
Equities				
Large cap core	841,799			841,799
International equity	431,373			431,373
Mid cap value	146,410			146,410
Large cap growth	116,357			116,357
Small cap core	133,536			133,536
Mid cap core	128,802			128,802
Large cap value	116,641			116,641
Small cap value	39,435			39,435
Other	<u>276,733</u>			<u>276,733</u>
Total equities	<u>2,231,086</u>	<u>-</u>	<u>-</u>	<u>2,231,086</u>
	<u>\$2,504,684</u>	<u>\$3,802,314</u>	<u>\$ -</u>	<u>\$6,306,998</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 table below present transactions measured at fair value on a non-recurring basis during the year ended June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributed services	\$ -	\$724,165	\$ -	\$724,165
Contributed materials		<u>437</u>		<u>437</u>
	<u>\$ -</u>	<u>\$724,602</u>	<u>\$ -</u>	<u>\$724,602</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).

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**6. Property and Equipment**

Property and equipment at June 30, 2017 consist of the following:

Leasehold improvements	\$ 876,092
Computers and software	265,795
Furniture and equipment	<u>228,998</u>
	1,370,885
Less: accumulated depreciation	<u>(891,725)</u>
	<u>\$ 479,160</u>

Depreciation expense for the year ended June 30, 2017 was \$70,342.

**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>	
2018	\$ 370,252
2019	331,878
2020	337,150
2021	329,578
2022	192,168
Thereafter	<u>435,948</u>
	<u>\$1,996,974</u>

Rental expense under operating leases for the year ended June 30, 2017 was \$407,086.

**8. Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2017 consist of the following:

Affinity groups and centers	\$ 912,852
Branch library support	525,919
Project Read	162,144
Children's programming	105,169
Dannenberg collection	103,347
Programs and exhibitions	45,014
Capital projects	20,260
Other	<u>460,595</u>
	<u>\$2,335,300</u>

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**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, 2017, 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.

*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.

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**10. Endowment Funds, continued**

*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, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
The Mel Swig Endowment Fund	\$ 34,601	\$ 480,808	\$1,462,589	<b>\$1,977,998</b>
The James C. Hormel Endowment Fund	97,012	447,271	861,076	<b>1,405,359</b>
Phyllis C. Wattis Fund for the Main Library	42,526	196,830	1,000,000	<b>1,239,356</b>
The Fritz and Lilian Dannenberg Library Fund	50,000	102,152	255,168	<b>407,320</b>
The Schmulowitz Collection of Wit and Humor Endowment	<u>309</u>	<u>1,156</u>	<u>25,000</u>	<u><b>26,465</b></u>
Total funds	<u><b>\$224,448</b></u>	<u><b>\$1,228,217</b></u>	<u><b>\$3,603,833</b></u>	<u><b>\$5,056,498</b></u>

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**10. Endowment Funds, continued**

Changes in endowment net assets for the fiscal years ended June 30, 2017 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	\$177,232	\$1,039,151	\$3,603,833	<b>\$4,820,216</b>
Interest/dividend income		118,940		<b>118,940</b>
Appropriation of endowment funds for expenditures	47,216	(47,216)		-
Net appreciation/ (depreciation)	<u>          </u>	<u>117,342</u>	<u>          </u>	<u>117,342</u>
Endowment net assets, end of year	<u><b>\$224,448</b></u>	<u><b>\$1,228,217</b></u>	<u><b>\$3,603,833</b></u>	<u><b>\$5,056,498</b></u>

**11. In-kind Donations**

In-kind donations for the year ended June 30, 2017 consists of the following:

	<u>Hours</u>	<u>Amount</u>
Donated services		
Book Donation Center	12,670	\$360,588
Readers Fort Mason	6,125	174,318
Big Book Sales	3,412	97,106
Readers Main	1,935	55,070
Step Sales	1,207	34,351
Other	96	<u>2,732</u>
		724,165
Donated material		<u>437</u>
		<u><b>\$724,602</b></u>

Friends received donated services from individuals who support the mission of the organization. The established fair value of donated services received for the year ended June 30, 2017 amounted to \$724,602 and 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.

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**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, 2017 were \$24,780. Plan contributions shall be fully vested and not forfeitable when such plan contributions are made.