

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

FINANCIAL STATEMENTS

JUNE 30, 2015

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Harrington Group

Certified Public Accountants, LLP

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, 2015, 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, 2015, 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 2014 financial statements, and our report dated September 4, 2014 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, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Harrington Group

San Francisco, California
September 4, 2015

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

STATEMENT OF FINANCIAL POSITION

June 30, 2015

With comparative totals at June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015	2014
Assets					
Cash and cash equivalents (Note 2)	\$ 783,981	\$ -	\$ -	\$ 783,981	\$ 997,327
Other receivable	28,821			28,821	6,657
Bequest receivable				-	35,534
Pledges receivable - net (Note 3)		409,831		409,831	910,447
Prepaid expenses	101,609			101,609	123,511
Investments (Note 4)	882,133	1,659,247	3,603,833	6,145,213	6,059,147
Property and equipment (Note 6)	389,214			389,214	168,976
Total assets	\$ 2,185,758	\$ 2,069,078	\$ 3,603,833	\$ 7,858,669	\$ 8,301,599
Liabilities and net assets					
Liabilities					
Accounts payable	\$ 190,209	\$ -	\$ -	\$ 190,209	\$ 171,505
Accrued vacation payable	76,806			76,806	84,690
Total liabilities	267,015	-	-	267,015	256,195
Net assets					
Unrestricted	1,918,743			1,918,743	2,106,859
Temporarily restricted (Note 8)		2,069,078		2,069,078	2,334,712
Permanently restricted (Note 9)			3,603,833	3,603,833	3,603,833
Total net assets	1,918,743	2,069,078	3,603,833	7,591,654	8,045,404
Total liabilities and net assets	\$ 2,185,758	\$ 2,069,078	\$ 3,603,833	\$ 7,858,669	\$ 8,301,599

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, 2015

With comparative totals for the year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2015</u>	<u>2014</u>
Revenue and support					
Contributions	\$ 1,468,965	\$ 361,777	\$ -	\$ 1,830,742	\$ 1,682,624
Book sales, net of expenses of \$74,211	1,326,383			1,326,383	1,238,113
Bequests	175,129	5,044		180,173	1,005,855
In-kind donations (Note 2)	581,669			581,669	677,760
Investment income	52,268	55,196		107,464	307,799
Government contracts and grants	99,364			99,364	97,095
Other income	3,635	516		4,151	15,992
Net assets released from purpose restrictions	688,167	(688,167)		-	-
Total revenue and support	<u>4,395,580</u>	<u>(265,634)</u>	<u>-</u>	<u>4,129,946</u>	<u>5,025,238</u>
Expenses					
Program services	3,879,358			3,879,358	3,923,723
Support services	704,338			704,338	699,398
Total expenses	<u>4,583,696</u>	<u>-</u>	<u>-</u>	<u>4,583,696</u>	<u>4,623,121</u>
Change in net assets	(188,116)	(265,634)	-	(453,750)	402,117
Net assets, beginning of year	<u>2,106,859</u>	<u>2,334,712</u>	<u>3,603,833</u>	<u>8,045,404</u>	<u>7,643,287</u>
Net assets, end of year	<u>\$ 1,918,743</u>	<u>\$ 2,069,078</u>	<u>\$ 3,603,833</u>	<u>\$ 7,591,654</u>	<u>\$ 8,045,404</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, 2015

With comparative totals for the year ended June 30, 2014

	Program Services			Support Services			Total Support Services	Total Support Services	2015	2014
	Outreach Series	Library Support	Book Distribution	Total Program Services	Management and General	Fundraising				
Staff compensation	\$ 127,651	\$ 86,305	\$ 518,372	\$ 1,046,815	\$ 115,586	\$ 137,529	\$ 253,115	\$ 1,299,930	\$ 1,250,513	
Taxes and benefits	31,524	21,617	150,664	287,487	35,110	33,650	68,760	356,247	344,077	
Total personnel costs	159,175	107,922	669,036	1,334,302	150,696	171,179	321,875	1,656,177	1,594,590	
Direct project grants		1,085,199		1,085,199				1,085,199	1,181,286	
In-kind expenses	140,825	27,553	159,194	485,235	7,654	88,781	96,435	581,670	677,761	
Rent	21,375	4,182	328,942	378,425	1,162	13,474	14,636	393,061	331,908	
Contract services	18,023	8,351	82,851	127,420	883	146,713	147,596	275,016	272,738	
Supplies	4,283	6,344	54,312	69,599	226	32,553	32,779	102,378	115,865	
Repairs and maintenance	5,329	1,043	34,459	46,798	290	21,031	21,321	68,119	64,497	
Bank charges	5,127	1,003	47,610	59,481	279	2,932	3,211	62,692	58,647	
Rentals - equipment	713	140	52,461	54,113	39	1,970	2,009	56,122	57,206	
Postage and delivery	2,657	282	30,859	34,703	44	15,542	15,586	50,289	47,942	
Depreciation	4,380	857	31,160	41,301	238	3,062	3,300	44,601	39,004	
Utilities	5,550	1,047	29,809	42,195	291	3,373	3,664	45,859	35,035	
Printing	3,903	322	5,523	10,835	53	16,509	16,562	27,397	30,826	
Telephone	4,719	923	28,529	39,455	256	2,975	3,231	42,686	28,926	
Accounting, audit, and legal	6,900	1,350	7,800	23,775	375	4,350	4,725	28,500	27,442	
Insurance	3,750	734	5,739	14,421	204	2,364	2,568	16,989	17,732	
Travel	650	392	9,972	11,741	35	2,813	2,848	14,589	15,231	
Advertising	3,806	227	3,523	8,426	42	490	532	8,958	10,306	
Dues and subscriptions	320	108	1,110	1,896	17	3,635	3,652	5,548	6,489	
Payroll processing	1,533	300	1,733	5,282	83	966	1,049	6,331	6,091	
Networking - staff development	810	124	759	2,403	34	6,551	6,585	8,988	2,922	
Licenses and fees	175	89	1,893	2,353	9	165	174	2,527	677	
Interest expense										
Total 2015 functional expenses	\$ 393,801	\$ 163,293	\$ 1,587,274	\$ 3,879,358	\$ 162,910	\$ 541,428	\$ 704,338	\$ 4,583,696		
Total 2014 functional expenses	\$ 387,711	\$ 160,221	\$ 1,651,306	\$ 3,923,723	\$ 160,776	\$ 538,622	\$ 699,398	\$ 4,623,121		

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, 2015

With comparative totals for the year ended June 30, 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (453,750)	\$ 402,117
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	44,300	39,004
(Gain) on investments	(38,883)	(196,304)
Reinvested interest and dividends	(123,723)	(111,458)
Change in allowance for doubtful accounts	(21,190)	(21,684)
Change in discount on pledges	(7,889)	(37,462)
Changes in operating assets and liabilities:		
(Increase) in other receivable	(22,164)	(482)
Decrease (increase) in bequest receivable	35,534	(1,692)
Decrease in pledges receivable	529,695	542,112
Decrease (increase) in prepaid expenses	21,902	(38,845)
Increase in accounts payable	18,704	26,907
(Decrease) increase in accrued vacation payable	(7,884)	10,732
Net cash (used) provided by operating activities	(25,348)	612,945
Cash flows from investing activities:		
Purchase of property and equipment	(264,538)	(36,427)
Proceeds from sale of investments	742,106	2,332,307
Purchase of investments	(665,566)	(2,330,210)
Net cash (used) by investing activities	(187,998)	(34,330)
Net (decrease) increase in cash and cash equivalents	(213,346)	578,615
Cash and cash equivalents, beginning of year	997,327	418,712
Cash and cash equivalents, end of year	\$ 783,981	\$ 997,327

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 54 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, 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.

Fundraising and the Neighborhood Library Capital Campaign

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. As a community foundation, in recent years Friends united a family 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.

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 Library's Branch Library Improvement Project (BLIP) renovated seventeen neighborhood libraries and moved seven branches from small, leased spaces to larger, new city- owned buildings, thanks to a bond measure spearheaded by the Friends and passed overwhelmingly by voters in 2000. The Mission Bay Branch Library was the first new branch library in 40 years. Friends' Neighborhood Library Capital Campaign (NLC) raised nearly \$14 million with \$10 million given to the Library), to equip and furnish those twenty-four branches. Friends strengthens communities; promotes access to knowledge, supports education and makes San Francisco a better place for all of us to live. The Bayview Hunter's Point branch was completed in 2013 and the North Beach branch was completed in May 2014.

continued

THE FRIENDS AND FOUNDATION OF THE SAN FRANCISCO PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

1. **Organization**, continued

Advocacy

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

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 some of the largest book sales on the West Coast). The Library also selectively acquires books from books donated to Friends that enhances 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 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.

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:

continued

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 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

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 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.

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 \$581,669 (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.

continued

**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, 2014 from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through September 4, 2015, 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, 2015, 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, 2015 of \$409,831 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>	
2016	\$399,595
2017	17,400
2018	3,416
2019	2,000
2020	2,000
Thereafter	<u>4,000</u>
	428,411
Less: Allowance for doubtful pledges receivable	(17,136)
Unamortized discount on pledges receivable	<u>(1,444)</u>
	<u>\$409,831</u>

4. Investments

Investments at June 30, 2015 consist of the following:

Fixed income	\$3,811,694
Equities	2,066,137
Cash equivalents	242,901
Mutual funds	<u>24,481</u>
	<u>\$6,145,213</u>

Changes in investments for the fiscal year ended June 30, 2015 are as follows:

Investments, beginning of year	\$6,059,147
Interest and dividends	123,723
Gain on investments	38,883
Purchase of investments	665,566
Sale of investments	<u>(742,106)</u>
Investments, end of year	<u>\$6,145,213</u>

continued

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

NOTES TO FINANCIAL STATEMENTS

5. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2015 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 242,901	\$ -	\$ -	\$ 242,901
Fixed income				
Corporate investment grade		2,462,623		2,462,623
Government		628,111		628,111
Corporate high yield		416,771		416,771
International		176,311		176,311
US fixed income		93,673		93,673
Other		34,205		34,205
Total fixed income	<u>-</u>	<u>3,811,694</u>	<u>-</u>	<u>3,811,694</u>
Equities				
Large cap	754,484			754,484
Mid cap	443,365			443,365
Small cap	150,645			150,645
Other	717,643			717,643
Total equities	<u>2,066,137</u>	<u>-</u>	<u>-</u>	<u>2,066,137</u>
Mutual funds	<u>24,481</u>	<u>-</u>	<u>-</u>	<u>24,481</u>
	<u>\$2,333,519</u>	<u>\$3,811,694</u>	<u>\$ -</u>	<u>\$6,145,213</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, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributed services	<u>\$ -</u>	<u>\$581,669</u>	<u>\$ -</u>	<u>\$581,669</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).

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

NOTES TO FINANCIAL STATEMENTS

6. Property and Equipment

Property and equipment at June 30, 2015 consist of the following:

Leasehold improvements	\$ 409,713
Construction in progress	260,469
Computers and software	237,777
Furniture and equipment	<u>217,530</u>
	1,125,489
Less: accumulated depreciation	<u>(736,275)</u>
	<u>\$ 389,214</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>	
2016	\$ 252,782
2017	257,606
2018	262,584
2019	267,708
2020	272,986
Thereafter	<u>898,882</u>
	<u>\$2,212,548</u>

Rental expense under operating leases for the year ended June 30, 2015 was \$393,060.

8. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2015 consist of the following:

Affinity groups and centers	\$ 772,845
Branch library support	513,399
Project Read	236,732
Children's programming	219,308
Dannenberg collection	105,203
Programs and exhibitions	48,210
Capital projects	20,260
Other	<u>153,121</u>
	<u>\$2,069,078</u>

continued

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

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, 2015, 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.

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

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, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
The Mel Swig Endowment Fund	\$ 27,505	\$345,997	\$1,462,589	\$1,836,091
The James C. Hormel Endowment Fund	41,678	409,325	861,076	1,312,079
Phyllis C. Wattis Fund for the Main Library	31,649	126,562	1,000,000	1,158,211
The Fritz and Lilian Dannenberg Library Fund	20,000	104,008	255,168	379,176
The Schmulowitz Collection of Wit and Humor Endowment	<u>280</u>	<u>1,157</u>	<u>25,000</u>	<u>26,437</u>
Total funds	<u>\$121,112</u>	<u>\$987,049</u>	<u>\$3,603,833</u>	<u>\$4,711,994</u>

continued

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

10. Endowment Funds, continued

Changes in endowment net assets for the fiscal years ended June 30, 2015 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	\$ 52,192	\$973,567	\$3,603,833	\$4,629,592
Interest/dividend income		99,973		99,973
Appropriation of endowment funds for expenditures	68,920	(68,920)		-
Net appreciation/ (depreciation)	_____	(17,571)	_____	(17,571)
Endowment net assets, end of year	<u>\$121,112</u>	<u>\$987,049</u>	<u>\$3,603,833</u>	<u>\$4,711,994</u>

11. In-kind Donations

In-kind donations for the year ended June 30, 2015 consists of the following:

	<u>Hours</u>	<u>Amount</u>
Donated services		
Book Donation Center	12,246	\$329,050
Readers Fort Mason	4,524	121,560
Big Book Sales	3,371	100,252
Step Sales	888	23,861
Other	259	6,946
		<u>\$581,669</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, 2015 amounted to \$581,669 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.

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 2015, Friends made discretionary matching contributions equal to three percent of eligible compensation. Employer contributions under this plan for the year ended June 30, 2015 were \$31,920. Plan contributions shall be fully vested and not forfeitable when such plan contributions are made.