

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

FINANCIAL STATEMENTS

JUNE 30, 2022

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INDEPENDENT AUDITORS' REPORT

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

Opinion

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, 2022, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Friends and Foundation of the San Francisco Public Library as of June 30, 2022, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITORS' REPORT

continued

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

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

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

Other Matter

Report on Summarized Comparative Information

We have previously audited The Friends and Foundation of the San Francisco Public Library's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 2, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Harrington Group

Oakland, California
November 16, 2022

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

STATEMENT OF FINANCIAL POSITION

June 30, 2022

With comparative totals at June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	2022	2021
ASSETS				
Cash and cash equivalents (Note 2)	\$ 134,452	\$ -	\$ 134,452	\$ 198,296
Other receivable	19,341		19,341	16,073
Pledges receivable - net (Note 4)		393,862	393,862	363,500
Prepaid expenses	176,285		176,285	123,649
Investments (Note 5)	1,087,232	5,862,102	6,949,334	8,967,984
Property and equipment (Note 7)	318,757		318,757	357,674
	\$ 1,736,067	\$ 6,255,964	\$ 7,992,031	\$ 10,027,176
 LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$ 283,077	\$ -	\$ 283,077	\$ 171,018
Accrued vacation payable	91,659		91,659	79,620
Deferred revenue	55,000		55,000	-
	429,736	-	429,736	250,638
 NET ASSETS				
Without donor restrictions	1,306,331		1,306,331	2,625,977
With donor restrictions				
Purpose restrictions (Note 9)		2,652,131	2,652,131	3,546,728
Perpetual in nature (Note 10)		3,603,833	3,603,833	3,603,833
	1,306,331	6,255,964	7,562,295	9,776,538
 TOTAL LIABILITIES AND NET ASSETS	\$ 1,736,067	\$ 6,255,964	\$ 7,992,031	\$ 10,027,176

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, 2022

With comparative totals for the year ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	2022	2021
REVENUE AND SUPPORT				
Contributions	\$ 1,447,242	\$ 257,502	\$ 1,704,744	\$ 1,538,025
Book sales, net of expenses of \$153,702	803,195		803,195	706,061
In-kind donations (Note 11)	329,445		329,445	122,576
Bequests	261,485		261,485	716,216
Government contracts and grants	1,100		1,100	-
Other income	78	2	80	63
(Loss) on disposal of assets	(2,263)		(2,263)	(21,423)
Investment income	(1,154,704)	(773,930)	(1,928,634)	2,749,235
Net assets released from restrictions	378,171	(378,171)	-	-
	2,063,749	(894,597)	1,169,152	5,810,753
EXPENSES				
Program services	2,724,105		2,724,105	2,553,137
Support services	659,290		659,290	588,245
	3,383,395	-	3,383,395	3,141,382
CHANGE IN NET ASSETS	(1,319,646)	(894,597)	(2,214,243)	2,669,371
NET ASSETS, BEGINNING OF YEAR	2,625,977	7,150,561	9,776,538	7,107,167
NET ASSETS, END OF YEAR	\$ 1,306,331	\$ 6,255,964	\$ 7,562,295	\$ 9,776,538

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, 2022

With comparative totals for the year ended June 30, 2021

	Program Services				Total Program Services	Support Services		Total Support Services	Total Expenses	
	Outreach Series	Volunteers	Library Support	Book Distribution		Management and General	Fundraising		2022	2021
Staff compensation	\$ 161,037	\$ 60,777	\$ 246,477	\$ 454,653	\$ 922,944	\$ 127,047	\$ 258,709	\$ 385,756	\$ 1,308,700	\$ 1,107,709
Taxes and benefits	32,407	19,968	61,838	119,633	233,846	37,361	44,459	81,820	315,666	284,909
Total personnel costs	193,444	80,745	308,315	574,286	1,156,790	164,408	303,168	467,576	1,624,366	1,392,618
Direct project grants			715,212		715,212			-	715,212	734,049
In-kind expenses (Note 11)				321,693	321,693	7,752		7,752	329,445	122,576
Rent	8,496	3,289	12,607	155,747	180,139	6,578	17,541	24,119	204,258	357,237
Contract services	37,491	1,826	6,638	37,200	83,155	3,463	89,905	93,368	176,523	217,082
Supplies	2,119	3,562	2,417	45,618	53,716	1,261	11,549	12,810	66,526	54,277
Depreciation	967	374	1,435	52,311	55,087	749	1,996	2,745	57,832	53,680
Repairs and maintenance	1,981	432	1,657	21,255	25,325	865	2,306	3,171	28,496	37,488
Accounting, audit, and legal	2,113	818	3,135	13,836	19,902	1,636	4,362	5,998	25,900	29,900
Bank charges	1,612	624	2,392	13,730	18,358	1,247	3,542	4,789	23,147	21,566
Utilities	947	366	1,405	17,680	20,398	733	1,954	2,687	23,085	28,674
Insurance	1,431	554	2,123	12,756	16,864	1,107	2,954	4,061	20,925	16,847
Rentals and equipment	5,518	225	861	11,157	17,761	448	1,198	1,646	19,407	18,089
Telephone	1,715	470	1,803	8,130	12,118	940	4,251	5,191	17,309	16,970
Printing	2,944	15	58	1,510	4,527	31	10,240	10,271	14,798	10,511
Dues and subscriptions	4,295	56	216	1,148	5,715	113	2,011	2,124	7,839	6,445
Payroll processing	637	247	945	4,170	5,999	493	1,315	1,808	7,807	6,911
Postage and delivery	82	32	122	540	776	64	5,370	5,434	6,210	7,236
Advertising	5,141				5,141			-	5,141	4,110
Travel	124	48	185	3,155	3,512	96	535	631	4,143	2,411
Networking and staff development	219	2	7	29	257	3	2,594	2,597	2,854	1,072
Licenses and fees	357	41	158	1,104	1,660	82	221	303	1,963	1,633
Miscellaneous expenses					-	209		209	209	-
TOTAL 2022 FUNCTIONAL EXPENSES	\$ 271,633	\$ 93,726	\$ 1,061,691	\$ 1,297,055	\$ 2,724,105	\$ 192,278	\$ 467,012	\$ 659,290	\$ 3,383,395	
TOTAL 2021 FUNCTIONAL EXPENSES	\$ 237,018	\$ 95,213	\$ 1,037,283	\$ 1,183,623	\$ 2,553,137	\$ 210,048	\$ 378,197	\$ 588,245		\$ 3,141,382

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, 2022

With comparative totals for the year ended June 30, 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (2,214,243)	\$ 2,669,371
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	57,832	53,680
Loss on disposal of assets	2,263	21,423
Loss (gain) on investments	2,037,104	(2,655,693)
Reinvested interest and dividends	(108,470)	(93,542)
Change in allowance for doubtful accounts	(9,639)	(1,197)
Change in discount on pledges	(10,735)	(1,093)
(Increase) decrease in operating assets:		
Other receivable	(3,268)	(14,757)
Pledges receivable	(9,988)	71,113
Prepaid expenses	(52,636)	3,738
Increase (decrease) in operating liabilities:		
Accounts payable	112,059	44,240
Accrued vacation payable	12,039	15,180
Deferred revenue	55,000	(100,000)
	(132,682)	12,463
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(21,178)	(60,232)
Proceeds from sale of investments	90,016	35,922
	68,838	(24,310)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES:		
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(63,844)	(11,847)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	198,296	210,143
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 134,452	\$ 198,296

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

THE FRIENDS AND FOUNDATION OF THE SAN FRANCISCO PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

1. Organization

Founded in 1961, The Friends and Foundation of the San Francisco Public Library ("Friends") is a member-supported, nonprofit organization that advocates, fundraises, and provides critical support for the San Francisco Public Library ("SFPL") and its mission for equitable access to resources for everyone. Friends is dedicated to creating, stewarding, and supporting one of the best public library systems in the country. In fact, SFPL was awarded the Gale Library Journal National Library of the Year Award in June 2018. Friends believes in free and equal access to information for all and is committed to raising the standard of excellence of our libraries by funding programs, services, special collections, furniture, fixtures, equipment beyond what is allocated in the City of San Francisco's budget. During its 60 years in existence, Friends has raised over \$70 million in private philanthropy, with nearly half of it, \$32 million, for the new Main Library's furniture, fixtures and equipment in 1996. Friends also administers endowment funds that provide ongoing support to the SFPL. A summary of its programs is as follows:

Library Support

Friends has an annual direct support program that funds various library programs, resources, and equipment. As a community foundation, Friends awards support to the SFPL for innovative, free programs and services that are open to everyone across San Francisco in the areas of: children and teens, neighborhood branches, arts and culture, exhibitions, careers and jobs support, ESL, new immigrant support, technology and media learning, remote outreach (bookmobiles), and special collections and infrastructure support for affinity centers throughout the Main Library. Examples of popular programs that rely almost exclusively on Friends' support are One City One Book, the Summer Stride Reading and STEM Program, Tricycle Music Festival, and the publication of *At the Library*, a free newsletter of activities at the Main Library and the 27 branches. Friends' funds also support professional development for library staff, including paying for specialized training and conferences and grants to Librarians to pilot new innovative services that if successful, are often expanded system wide. And finally, Friends support includes additional funds for the library to promote free programs among identified groups of high-need residents, including contracting digital marketing expertise.

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

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

THE FRIENDS AND FOUNDATION OF THE SAN FRANCISCO PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

1. **Organization**, continued

Fundraising

Friends' financial support of the library come from over 4,000 member households, foundations and corporations, and a unique and successful used book program that takes in one million used books and media and resells them in two bookstores and community book events. Friends is a community of supporters who share a common vision of excellence for the Library and provides those supporters with a variety of opportunities to participate as donors, volunteers, and advocates.

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

In addition to supporting special capital needs and projects, Friends makes an annual grant award to the SFPL averaging \$800,000 for library programs and services that support one or more of the following six SFPL strategic priorities:

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

THE FRIENDS AND FOUNDATION OF THE SAN FRANCISCO PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

1. **Organization**, continued

Advocacy and Education

Friends continues the tradition of active and vocal support to ensure excellence in library services for all users. Friends' long and successful track record includes its critical role in passing 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.

Friends also amplifies the library's efforts to promote and market its free programs to the public through its own newsletter, website, social media platforms, and paid advertising. In response to a community survey that Friends' conducted in 2021 showing that Latinx residents and those in the south and southeast neighborhoods showed less knowledge of library programs, Friends has targeted its efforts to reach those residents.

Community Programming

Community Book Program. Through ongoing efforts to support the library, Friends connects readers with inexpensive and free books. Each year, through its Community Book Program ("CBP"), Friends takes in over one million donated books and media, which it in turn resells to the public through two bookstores, online sales, and a number of specialty book sales (including some of the largest book sales on the West Coast). The SFPL also selectively acquires rare books from Friends that enhance SFPL's collections. Many books are also donated to schools and other non-profit organizations through Friends' CBP.

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

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

continued

THE FRIENDS AND FOUNDATION OF THE SAN FRANCISCO PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

1. **Organization**, continued

Volunteer Program. Friends has a robust volunteer program in which over 1,400 volunteers help in the Book Program, administrative office, and at Friends' community events. In all of these activities, they contribute to our library advocacy efforts by educating the public about the Library Preservation Fund and promoting patronage of the 28 libraries.

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

2. **Summary of Significant Accounting Policies**

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

Basis of Presentation

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

Net Assets

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

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

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

THE FRIENDS AND FOUNDATION OF THE SAN FRANCISCO PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

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

Contributions and Pledges Receivable

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

Investments

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

Fair Value Measurements

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

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

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

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

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

Concentration of Credit Risks

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

continued

THE FRIENDS AND FOUNDATION OF THE SAN FRANCISCO PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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

Property and Equipment

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

Recently Adopted Accounting Pronouncement

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU clarifies the presentation and disclosure of contributed nonfinancial assets, including land, buildings, and other items, to increase transparency and comparability surrounding contributed nonfinancial assets through enhancements to presentation and disclosure. The ASU requires to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets, include in disclosures a disaggregation of the amount of contributed nonfinancial assets by category, for each category, additional qualitative disclosures. The update does not change existing recognition and measurement requirements for contributed nonfinancial assets. The ASU is effective for fiscal years beginning after June 15, 2021. Friend's financial statements for the year ended June 30, 2022 are presented in accordance with ASU 2020-07.

Donated Materials and Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. Refer to footnotes 6 and 11 for further disclosures.

Income Taxes

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

THE FRIENDS AND FOUNDATION OF THE SAN FRANCISCO PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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

Functional Allocation of Expenses

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Friends' financial statements for the year ended June 30, 2021, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through November 16, 2022, 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

3. Liquidity and Availability of Resources

Friends has \$3,125,524 of financial assets available within one year of the financial position date to meet cash needs for general expenditures. This consists of cash and cash equivalents of \$134,452, contributions and other receivables of \$413,203, and short-term investments of \$2,772,219. Financial assets totaling \$2,652,131 that are available within one year are subject to donor restrictions for program expenditure at the SFPL as part of Friends annual grant funding. The contributions receivables are subject to time restriction but are expected to be collected within one year including recurring planned gifts from donor advised charitable funds.

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

Friends receives gifts to establish endowments that will exist in perpetuity and the income generated from such endowments are used to fund programs and general expenditures. As of June 30, 2022, Friends has \$3,603,833 in donor restricted endowments. Although Friends does not intend to spend from the endowment funds other than amounts appropriated for general expenditures as part of its annual budget approval and appropriation process, amounts from its endowments could be made available if necessary. However, some endowments contain investments with lock-up provisions that would reduce the total investments that could be made available. Because a donor's restriction requires certain resources to be used in a particular manner in the future, Friends maintains sufficient resources to meet those responsibilities to its donors.

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

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

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

The table below presents financial assets available for general expenditures within one year at June 30, 2022:

continued

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

NOTES TO FINANCIAL STATEMENTS

3. Liquidity and Availability of Resources, continued

Financial assets at year:	
Cash and cash equivalents	\$ 134,452
Pledges receivable	393,862
Other receivable	19,341
Investments	<u>6,949,334</u>
Total financial assets	<u>7,496,989</u>
Less amount not available to be used within one year:	
Pledges receivable due after one year, net	194,350
Investments held in long-term securities	573,282
Investments held for restricted endowments	<u>3,603,833</u>
Financial assets not available to be used within one year	<u>4,371,465</u>
	<u>\$3,125,524</u>

4. 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, 2022, 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, 2022 of \$393,862 is expected to be collected as follows:

<u>Year ending June 30,</u>	
2023	\$227,104
2024	74,350
2025	60,000
2026	<u>60,000</u>
	421,454
Less: allowance for doubtful pledges receivable	<u>(27,592)</u>
	<u>\$393,862</u>

5. Investments

Investments at June 30, 2022 consist of the following:

Equities	\$1,505,374
Fixed income	4,933,389
Cash equivalents	413,969
Others	<u>96,602</u>
	<u>\$6,949,334</u>

continued

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

5. Investments, continued

Changes in investments for the year ended June 30, 2022 are as follows:

Investments, beginning of year	\$ 8,967,984
Interest and dividends	108,470
Loss on investments	(2,037,104)
Sale of investments	<u>(90,016)</u>
Investments, end of year	<u>\$ 6,949,334</u>

6. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2022 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 413,969	\$ -	\$ -	\$ 413,969
Fixed income				
Fixed income intermediate		4,933,389		4,933,389
Equities	1,505,374			1,505,374
Others	<u>96,602</u>			<u>96,602</u>
	<u>\$2,015,945</u>	<u>\$4,933,389</u>	<u>\$ -</u>	<u>\$6,949,334</u>

The fair values of cash equivalents 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, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributed services	\$ -	\$329,445	\$ -	\$329,445
Pledged contributions – current year			<u>252,500</u>	<u>252,500</u>
	<u>\$ -</u>	<u>\$329,445</u>	<u>\$252,500</u>	<u>\$581,945</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 fair value of pledged contributions – current year has been measured on a non-recurring basis using the value provided by the donor at the date of pledge and based on evaluating the credit worthiness of the donor (Level 3 inputs).

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

7. Property and Equipment

Property and equipment at June 30, 2022 consist of the following:

Leasehold improvements	\$ 857,695
Computers and software	317,826
Furniture and equipment	<u>255,335</u>
	1,430,856
Less: accumulated depreciation	<u>(1,112,099)</u>
	<u>\$ 318,757</u>

Depreciation expense for the year ended June 30, 2022 was \$57,832.

8. 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 ending June 30,</u>	
2023	\$197,933
2024	228,865
2025	<u>34,145</u>
	<u>\$460,943</u>

Rental expense under operating leases for the year ended June 30, 2022 was \$204,258.

Risks

Friends invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Market risks include global events which could impact the value of investments securities, such as a pandemic or international conflict. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that change in the values of investments securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

continued

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

9. Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2022 consist of the following:

Subject to expenditure for specified purpose:

Branch library support	\$ 548,271
Programs and exhibitions	345,921
Affinity groups and centers	272,237
Children's programming	132,094
Project read	109,036
Other	69,226
Capital projects	<u>20,260</u>
	<u>1,497,045</u>

Endowments:

Subject to appropriation and expenditures when
a specific event occurs:

Restricted by donors for	
Affinity groups and centers	767,636
Other	351,441
Branch library support	<u>36,009</u>
Total endowment	<u>1,155,086</u>
Total purpose restrictions	<u>\$2,652,131</u>

10. Endowment Funds

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

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

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

10. Endowment Funds, continued

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

Endowment net assets composition by type of fund as of June 30, 2022 is as follows:

	<u>With Donor Restrictions</u>
Donor-restricted endowment funds:	
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$3,603,833
Accumulated investment gains	<u>1,107,011</u>
	<u>\$4,710,844</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 years ended June 30, 2022 are as follows:

	<u>With Donor Restrictions</u>
Endowment net assets, beginning of year	\$ 5,510,627
Interest/dividend income	127,340
Appropriation of endowment funds for expenditures	(1,708,579)
Net appreciation	<u>781,456</u>
Endowment net assets, end of year	<u>\$ 4,710,844</u>

Net assets with donor restrictions perpetual in nature represent contributions which the donor has stipulated that the principal is to be kept intact in perpetuity and only the interest and dividends therefrom may be expended for unrestricted purposes. At June 30, 2022, they consist of the following:

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

11. In-kind Donations

In kind donations for the year ended June 30, 2022 consists of the following:

Donated services:	<u>Hours</u>	<u>Amount</u>
Book Donation Center	3,574	\$ 127,091
Online Sales	3,388	120,477
Main Book Store	1,660	59,012
Step Sales	404	14,366
Board of Directors	218	7,752
Book Sales at DC	21	<u>747</u>
		<u>\$329,445</u>

Friends received donated services from individuals who support the mission of the organization. Such services, if not donated, would have been paid for by Friends. Accordingly, Friends has recorded revenue and corresponding expense for the year ended June 30, 2022 amounting to \$329,445 of which \$321,693 was for its Book Distribution Program and \$7,752 for Management and General. There were no donor restrictions on the in-kind donations as of June 30, 2022.

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

11. In-kind Donations, continued

The established fair value of donated services received was based upon the number of hours contributed at appropriate volunteer rate and has been recorded as an in-kind contribution and expense. The volunteer rate is based on yearly earnings provided by the Bureau of Labor Statistics and increased by 12% to estimate for fringe benefits. The current rate for the State of California is \$35.56.

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 2022, Friends made discretionary matching contributions equal to three percent of eligible compensation. Employer contributions under this plan for the year ended June 30, 2022 were \$25,364. Plan contributions shall be fully vested and not forfeitable when such plan contributions are made.