

San Diego Public Library Foundation

Financial Statements

Years Ended June 30, 2018 and 2017



SAN DIEGO PUBLIC LIBRARY FOUNDATION
Financial Statements
Years Ended June 30, 2018 and 2017

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Aldrich CPAs + Advisors LLP
7676 Hazard Center Drive, #1300
San Diego, California 92108

INDEPENDENT AUDITORS' REPORT

To the Audit Committee of
San Diego Public Library Foundation

We have audited the accompanying financial statements of San Diego Public Library Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to 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 auditor's 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 2018 financial statements referred to above present fairly, in all material respects, the financial position of San Diego Public Library Foundation as of June 30, 2018, 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.

Prior Period Financial Statements

The financial statements of San Diego Public Library Foundation as of June 30, 2017, were audited by other auditors whose report dated January 8, 2018, expressed an unmodified opinion on those statements.

Aldrich CPAs + Advisors LLP

San Diego, California
November 27, 2018

SAN DIEGO PUBLIC LIBRARY FOUNDATION
Statements of Financial Position
June 30, 2018 (With Comparative Totals for 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
ASSETS					
Cash and cash equivalents	\$ 661,608	\$ 3,581,619	\$ 1,134,321	\$ 5,377,548	\$ 2,949,442
Contributions receivable, net	212,250	4,351,029	-	4,563,279	8,357,380
Due from Unrestricted	-	-	-	-	1,000,000
Inventory	48,683	-	-	48,683	46,540
Prepaid expense and other assets	27,583	-	-	27,583	29,507
	<u>950,124</u>	<u>7,932,648</u>	<u>1,134,321</u>	<u>10,017,093</u>	<u>12,382,869</u>
Total Assets	<u>\$ 950,124</u>	<u>\$ 7,932,648</u>	<u>\$ 1,134,321</u>	<u>\$ 10,017,093</u>	<u>\$ 12,382,869</u>
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts payable and accrued expenses	\$ 97,984	\$ -	\$ -	\$ 97,984	\$ 92,149
Deferred revenue	149,860	-	-	149,860	40,000
Due to Temporarily Restricted	-	-	-	-	1,000,000
Loan payable	82,000	-	-	82,000	82,000
Grants payable	5,793,026	-	-	5,793,026	10,012,244
	<u>6,122,870</u>	<u>-</u>	<u>-</u>	<u>6,122,870</u>	<u>11,226,393</u>
Total Liabilities	<u>6,122,870</u>	<u>-</u>	<u>-</u>	<u>6,122,870</u>	<u>11,226,393</u>
Net Assets (Deficit)	<u>(5,172,746)</u>	<u>7,932,648</u>	<u>1,134,321</u>	<u>3,894,223</u>	<u>1,156,476</u>
Total Liabilities and Net Assets	<u>\$ 950,124</u>	<u>\$ 7,932,648</u>	<u>\$ 1,134,321</u>	<u>\$ 10,017,093</u>	<u>\$ 12,382,869</u>

SAN DIEGO PUBLIC LIBRARY FOUNDATION
Statements of Activities
Year Ended June 30, 2018 (With Comparative Totals for 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
Revenue and Support					
Contributions	\$ 2,065,459	\$ 1,968,297	\$ -	\$ 4,033,756	\$ 3,409,194
Contributions- capital campaign	-	62,193	-	62,193	10,135,734
Special events	754,067	-	-	754,067	737,201
Library shop sales	228,932	-	-	228,932	207,689
In-kind contributions (Foundation)	101,280	-	-	101,280	91,866
In-kind contributions (Library shop)	23,219	-	-	23,219	18,921
Investment income	197	-	3,408	3,605	28,695
Net assets released from restrictions	4,842,628	(4,842,628)	-	-	-
Total Revenue and Support	8,015,782	(2,812,138)	3,408	5,207,052	14,629,300
Expenses					
Program Services					
San Diego Public Library System	1,306,277	-	-	1,306,277	11,281,750
Library shop	275,047	-	-	275,047	264,708
Total Program Services	1,581,324	-	-	1,581,324	11,546,458
Supporting services:					
Management and general	406,627	-	-	406,627	556,467
Fundraising	265,657	-	-	265,657	280,949
Total Supporting Services	672,284	-	-	672,284	837,416
Special events	215,697	-	-	215,697	229,125
Total Expenses	2,469,305	-	-	2,469,305	12,612,999
Change in Net Assets	5,546,477	(2,812,138)	3,408	2,737,747	2,016,301
Net Assets (Deficit), beginning	(10,719,223)	10,744,786	1,130,913	1,156,476	(859,825)
Net Assets (Deficit), ending	\$ (5,172,746)	\$ 7,932,648	\$ 1,134,321	\$ 3,894,223	\$ 1,156,476

SAN DIEGO PUBLIC LIBRARY FOUNDATION
Statement of Functional Expenses
Year Ended June 30, 2018 (With Comparative Totals for 2017)

	Program Services			Supporting Services			2018 Total	2017 Total
	San Diego Public Libraries	Library Shop	Program Services	Fundraising	Management and General	Supporting Services		
Personnel costs	\$ 596,189	\$ 109,009	\$ 705,198	\$ 126,726	\$ 272,995	\$ 399,721	\$ 1,104,919	\$ 1,098,843
Library support	619,132	79	619,211	537	-	537	619,748	784,988
Events	-	1,024	1,024	214,673	-	214,673	215,697	229,125
Cost of goods sold	-	129,805	129,805	-	-	-	129,805	111,520
Occupancy	47,381	23,219	70,600	33,147	20,752	53,899	124,499	63,587
Professional fees	-	-	-	-	52,692	52,692	52,692	54,928
Computers and equipment	18,480	2,304	20,784	14,726	9,763	24,489	45,273	58,240
Contract services	-	-	-	34,259	-	34,259	34,259	42,077
Bank and merchant fees	-	6,997	6,997	-	17,377	17,377	24,374	28,014
Travel/auto/parking	7,931	-	7,931	6,699	2,755	9,454	17,385	20,096
Other	-	-	-	-	16,375	16,375	16,375	15,600
Consulting fees	2,089	-	2,089	11,201	1,540	12,741	14,830	18,263
Meetings	3,057	-	3,057	6,072	3,776	9,848	12,905	7,802
Printing	2,053	-	2,053	9,678	799	10,477	12,530	9,327
Donor relations and events	46	-	46	11,771	-	11,771	11,817	19,780
Dues and subscriptions	2,433	-	2,433	3,798	2,064	5,862	8,295	9,262
Insurance	3,777	-	3,777	1,987	1,255	3,242	7,019	2,933
Staff training and development	1,882	19	1,901	1,749	2,768	4,517	6,418	6,512
Office	1,428	1,750	3,178	1,197	1,580	2,777	5,955	11,246
Postage	399	-	399	3,134	136	3,270	3,669	6,275
Advertising	-	477	477	-	-	-	477	1,242
Displays	-	364	364	-	-	-	364	939
Capital projects	-	-	-	-	-	-	-	10,000,000
Utilities	-	-	-	-	-	-	-	12,400
Total Expenses	\$ 1,306,277	\$ 275,047	\$ 1,581,324	\$ 481,354	\$ 406,627	\$ 887,981	\$ 2,469,305	\$ 12,612,999

See accompanying notes to financial statements.

SAN DIEGO PUBLIC LIBRARY FOUNDATION
Statement of Functional Expenses
Year Ended June 30, 2017

	Program Services			Supporting Services			Total
	San Diego Public Libraries	Library Shop	Program Services	Fundraising	Management and General	Supporting Services	
Personnel costs	\$ 407,633	\$ 119,257	\$ 526,890	\$ 428,452	\$ 143,501	\$ 571,953	\$ 1,098,843
Library support	784,988	-	784,988	-	-	-	784,988
Events	-	958	958	228,167	-	228,167	229,125
Cost of goods sold	-	111,520	111,520	-	-	-	111,520
Occupancy	20,944	18,921	39,865	16,018	7,704	23,722	63,587
Professional fees	-	-	-	-	54,928	54,928	54,928
Computers and equipment	23,819	1,838	25,657	18,986	13,597	32,583	58,240
Contract services	-	-	-	42,077	-	42,077	42,077
Bank and merchant fees	-	8,419	8,419	-	19,595	19,595	28,014
Travel/auto/parking	8,142	-	8,142	8,038	3,916	11,954	20,096
Other	-	-	-	-	15,600	15,600	15,600
Consulting fees	11,063	-	11,063	-	7,200	7,200	18,263
Meetings	1,990	-	1,990	3,134	2,678	5,812	7,802
Printing	3,592	-	3,592	4,733	1,002	5,735	9,327
Donor relations and events	375	-	375	19,405	-	19,405	19,780
Dues and subscriptions	3,746	-	3,746	3,714	1,802	5,516	9,262
Insurance	1,349	-	1,349	1,144	440	1,584	2,933
Staff training and development	1,322	317	1,639	1,671	3,202	4,873	6,512
Office	4,594	1,297	5,891	3,439	1,916	5,355	11,246
Postage	2,793	-	2,793	2,614	868	3,482	6,275
Advertising	-	1,242	1,242	-	-	-	1,242
Displays	-	939	939	-	-	-	939
Capital projects	10,000,000	-	10,000,000	-	-	-	10,000,000
Utilities	5,400	-	5,400	4,000	3,000	7,000	12,400
Total Expenses	\$ 11,281,750	\$ 264,708	\$ 11,546,458	\$ 785,592	\$ 280,949	\$ 1,066,541	\$ 12,612,999

See accompanying notes to financial statements.

SAN DIEGO PUBLIC LIBRARY FOUNDATION
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 2,737,747	\$ 2,016,301
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Changes in operating assets and liabilities:		
Contributions receivable, net	3,794,101	3,254,891
Inventory	(2,143)	(6,169)
Prepaid expense and other assets	1,924	(916)
Accounts payable and accrued expenses	5,835	(307,162)
Deferred revenue	109,860	(67,462)
Grants payable	<u>(4,219,218)</u>	<u>(3,605,873)</u>
Net Increase in Cash	2,428,106	1,283,610
Cash and cash equivalents, beginning	<u>2,949,442</u>	<u>1,665,832</u>
Cash and cash equivalents, ending	<u>\$ 5,377,548</u>	<u>\$ 2,949,442</u>

SAN DIEGO PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements

Years Ended June 30, 2018 and 2017

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of Activities

San Diego Public Library Foundation (the "Library Foundation") is a California Nonprofit Corporation established in 2002. The Library Foundation strengthens communities by supporting excellence in the San Diego Public Library system through philanthropy, advocacy and outreach. The Library Foundation will create a community where all people are engaged, literate and empowered to fully participate in society. We accomplish this vision by partnering with the San Diego Public Library to develop the world's best library system. The Library Foundation raises funds and provides a wide range of resources to meet ongoing needs at all 36 libraries throughout the City of San Diego including books, capital for new libraries, programs, equipment, technology and online resources. To date, the Library Foundation has provided more than \$100,000,000 in funding to the San Diego Public Library system. Through donor support, the Library Foundation deepens the Library's role as a center of learning, creativity and innovation in the digital age. Library Foundation donors help minds grow and enhance the Library's proven track record for strengthening communities throughout San Diego.

Library Shop

The Library Shop is collaboration between the San Diego Public Library Foundation and the Friends of the Library. All proceeds benefit the entire San Diego Public Library system. The Library Shop has a carefully curated selection of books, jewelry, children's merchandise, gifts and art and supports local vendors and artisans whenever possible. The Library Shop is located at the San Diego Central Library.

Significant Accounting Policies

Method of accounting - The financial statements of the Library Foundation have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America ("GAAP") and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of presentation - The financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Library Foundation may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

The Financial Accounting Standards Board ("FASB") has issued reporting standards for endowments of not-for-profit organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), and enhanced disclosures for all endowment funds. The standards provide guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. The standards also require additional disclosures about endowments (both donor-restricted funds and board-designated funds) to enable users of financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policies, and related investment policies of its endowment funds.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Fair Value Measurements

The Library Foundation defines fair value as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market. The Library Foundation applies fair value measurements to assets and liabilities that are required to be recorded at fair value under generally accepted accounting principles. Fair value measurement techniques maximize the use of observable inputs and minimize the use of unobservable inputs, and are categorized in a fair value hierarchy based on the transparency of inputs. The three levels are defined as follows:

- Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

As a practical expedient, certain financial instruments may be valued using net asset value (NAV) per share. NAV is the amount of net assets attributable to each share of outstanding capital stock at the end of the period.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The carrying value of cash, receivables, and payables approximates fair value as of June 30, 2018 and 2017, due to the relative short maturities of these instruments. Investments acquired by gift are recorded at their fair market value at the date of the gift. The Library Foundation's policy is to liquidate all gifts of investments immediately upon receipt.

Cash and cash equivalents

For purposes of the statement of cash flows, the Library Foundation considers all highly liquid investment instruments purchased with a maturity of three months or less to be cash equivalents.

Inventory

Inventory consists of Library Shop merchandise. Inventory is valued at the lower of average cost or net realizable value.

Property and Equipment

The Library Foundation capitalizes all expenditures in excess of \$5,000 for equipment at cost, while donations of equipment are recorded at their estimated fair values. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Library Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Library Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time. The Library Foundation has no capitalized equipment at June 30, 2018.

Maintenance, repairs, and minor renewals are charged to operations as incurred. Upon sale or disposition of equipment, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale and any resultant gain or loss is credited or charged to earnings.

Compensated Absences

Accumulated paid time off totaling \$40,135 and \$44,096 at June 30, 2018 and 2017, respectively, are accrued when incurred and included in accounts payable and accrued expenses.

SAN DIEGO PUBLIC LIBRARY FOUNDATION
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Contributions

Contributions are recognized when the donor makes a promise to give in writing to the Library Foundation that is in substance, unconditional. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. When the stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. The Library Foundation's policy is to charge off uncollectible receivables when management determines the receivable will not be collected. Based on the information available, management believes that no allowance is needed as of June 30, 2018 and 2017.

Deferred Revenue

Deferred revenue represents amounts collected in advance for special events. Such amounts are recognized as revenue in the period in which they are earned.

Donated Office Space, Office Support, and Other Outside Services and Materials

The Library Foundation received contributed office space, facility costs, printing, postage, and professional services totaling \$124,499 and \$110,787 for the years ended June 30, 2018 and 2017, respectively, which have been reflected in the financial statements as unrestricted in-kind contributions revenue and program and supporting services expenses.

Additionally, a substantial number of volunteers have donated significant amounts of their time to the Library Foundation fundraising campaigns. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services by volunteers for the years ended June 30, 2018 and 2017, did not meet the requirements above; therefore, no amount was recognized in the financial statements for volunteer time.

Allocated Expenses

Expenses by function have been allocated among program and supporting service classifications on the basis of internal records and estimates made by the Library Foundation's management.

Income Taxes

The Library Foundation is a public charity and is exempt from federal and California income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Library Foundation believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Library Foundation is not a private foundation.

Concentration of Credit Risk

The Library Foundation maintains cash and cash equivalents in bank deposit and investment accounts. Bank deposit accounts are insured by the Federal Deposit Insurance Corporation up to a limit of \$250,000. The Library Foundation's account balances may, at times, exceed the limits. The Library Foundation has uninsured balances in a bank deposit account in the amount of \$5,516,673 and \$2,878,863 at June 30, 2018 and 2017, respectively. The Library Foundation has not experienced any losses in such accounts and management believes that it is not exposed to any significant credit risk of cash and cash equivalents.

SAN DIEGO PUBLIC LIBRARY FOUNDATION
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Net Assets (Deficit)

The Library Foundation had an unrestricted net asset deficiency of \$5,172,746 and \$10,719,223 at June 30, 2018 and 2017, respectively. During the fiscal year ended June 30, 2018, the Library Foundation had cash inflows from operating activities of \$2,428,106. The grants payable (see Note 5) are classified on the statements of financial position as unrestricted liabilities while a substantial portion of the cash and contributions receivable, which will be used to retire the liabilities, are classified as temporarily restricted assets.

Note 2 – Contributions Receivable

Contributions receivable consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Current		
Receivables due in less than one year	\$ 3,818,464	\$ 4,329,950
Noncurrent		
Receivables due in one to five years	777,053	4,102,703
Less: discounts to present value	<u>(32,238)</u>	<u>(75,273)</u>
Total Noncurrent	<u>744,815</u>	<u>4,027,430</u>
Total contributions receivable, net	<u>\$ 4,563,279</u>	<u>\$ 8,357,380</u>

The contributions receivable have been discounted to their present value using discount rate of 2.5% and 1.1% at June 30, 2018 and 2017, respectively.

Note 3 – Due To/From

After receiving contributions from a donor restricted for specific use, management of the Library Foundation determined that temporarily restricted net assets of \$1,000,000 were used for unrestricted expenses. This resulted in a receivable in temporarily restricted net assets that will be received from unrestricted net assets at June 30, 2017. This amount was repaid from unrestricted funds during the year ended June 30, 2018.

Note 4 – Loan Payable

The Library Foundation has received unsecured loans in the amounts of \$10,000 and \$90,000 from the Friends of San Diego Public Library to be used for start-up and operation costs of the Library Shop. The loans are noninterest bearing and are repayable only from funds generated by the Library Shop. It is anticipated that funds will not be available for repayment purposes in the near term. The balance of the loans payable totaled \$82,000 at June 30, 2018 and 2017.

Note 5 – Grants Payable

Grant Payable – Central Library construction

In fiscal year 2012, a private foundation made a conditional grant to the Library Foundation to complete the funding of Phase II of the construction of the new central library facility. The grant amount was received from the private foundation and was paid to the City of San Diego in fiscal year 2012. The Grant Agreement between the private foundation, the San Diego Public Library Foundation, and the City of San Diego called for the payment of the grant amount by the Library Foundation to a tax-exempt charity designated by the foundation as donor pledges for the construction were received by the Library Foundation. The balance of the grant payable was \$1,293,026 and \$2,512,244 at June 30, 2018 and 2017, respectively. The outstanding pledges supporting the grant payments will be received through June 30, 2020.

SAN DIEGO PUBLIC LIBRARY FOUNDATION
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

Note 5 – Grants Payable, continued

Grant Payable – Central Library operating expense

In fiscal year 2012, two donors pledged \$5,000,000 each to support the operations of the new central library facility for the period of July 1, 2013 through June 30, 2018. Each pledge is payable at \$1,000,000 annually starting in fiscal year 2013. The \$2,000,000 received annually by the Library Foundation is paid to the City of San Diego.

As of June 30, 2018 and 2017, the balance of the grant payable was \$1,000,000 and \$2,000,000, respectively, of which \$1,000,000 is to be paid in fiscal year 2019.

Grant payable – San Ysidro Branch Library construction

In fiscal year 2016, two donors made a conditional grant to the Library Foundation of \$1,500,000 for the construction of the new San Ysidro branch library. The contribution will be paid in two installments based on stated stages of completion of the construction. Payments are expected to be made in fiscal year 2019.

Grant payable – Mission Hills/Hillcrest Branch Library construction

In fiscal year 2017, two donors pledged \$5,000,000 each for the construction of the new Mission Hills/Hillcrest branch library, of which \$6,000,000 was paid to the City of San Diego in fiscal year 2017 and \$2,000,000 in fiscal year 2018, leaving a balance of \$2,000,000 on June 30, 2018.

Note 6 – Temporarily Restricted Net Assets

Temporarily restricted net assets consist of contributions received by the Library Foundation that have time and purpose restrictions to be fulfilled in the future and consist of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Library capital projects	\$ 4,254,945	\$ 7,411,347
Central library operations	1,000,000	2,000,000
Branch libraries operations	2,677,703	1,333,439
Total temporarily restricted net assets	<u>\$ 7,932,648</u>	<u>\$ 10,744,786</u>

Net assets totaling \$4,842,628 and \$14,224,041 were released from donor restrictions by incurring expenses and costs satisfying the purpose restrictions specified by donors for the years ended June 30, 2018 and 2017 respectively.

Note 7 – Endowment Net Assets

The Library Foundation's endowment consists of individual funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions. The Library Foundation has interpreted the enacted version of the 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, the Library Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment (2) the original value of subsequent gifts donated to the permanent endowment (3) 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 in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Library Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

SAN DIEGO PUBLIC LIBRARY FOUNDATION
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

Note 7 – Endowment Net Assets, continued

In accordance with UPMIFA, the Library Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Library Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Library Foundation
- The investment policies of the Library Foundation

From time to time, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Library Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies at June 30, 2018 and 2017. The Library Foundation has adopted investment and spending policies for endowment funds that:

- Manage the funds in a prudent manner recognizing risk and return tradeoffs
- Maintain a diversified portfolio that provides for asset growth through a combination of investment income and capital appreciation comparable to established industry benchmarks
- Maintain sufficient liquidity to fund expenses and support the spending policy
- Comply with applicable laws

Endowment composition by type of fund as of June 30, 2018:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds:			
Point Loma	\$ -	\$ 650,000	\$ 650,000
Valencia Park	-	353,408	353,408
Logan Heights	-	79,393	79,393
Central	-	51,520	51,520
Total endowment Funds	<u>\$ -</u>	<u>\$ 1,134,321</u>	<u>\$ 1,134,321</u>

Endowment composition by type of fund as of June 30, 2017:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds:			
Point Loma	\$ -	\$ 650,000	\$ 650,000
Valencia Park	-	350,000	350,000
Logan Heights	-	79,393	79,393
Central	-	51,520	51,520
Total endowment funds	<u>\$ -</u>	<u>\$ 1,130,913</u>	<u>\$ 1,130,913</u>

SAN DIEGO PUBLIC LIBRARY FOUNDATION
Notes to Financial Statements
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Note 7 – Endowment Net Assets, continued

Change in endowment net assets:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at June 30, 2017	\$ -	\$ 1,130,913	\$ 1,130,913
Investment income	-	3,408	3,408
Endowment net assets at June 30, 2018	<u>\$ -</u>	<u>\$ 1,134,321</u>	<u>\$ 1,134,321</u>

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at June 30, 2016	\$ -	\$ 130,913	\$ 130,913
Contributions	-	1,000,000	1,000,000
Endowment net assets at June 30, 2017	<u>\$ -</u>	<u>\$ 1,130,913</u>	<u>\$ 1,130,913</u>

Note 8 – Subsequent Events

The Library Foundation has evaluated subsequent events through November 27, 2018 which is the date the financial statements were available to be issued.