

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

FINANCIAL STATEMENTS

JUNE 30, 2014

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of The Friends and Foundation of the San Francisco Public Library (a nonprofit organization), which comprise the Statement of Financial Position as of June 30, 2014, 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, 2014, 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 2013 financial statements, and our report dated September 27, 2013 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, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Harrington Group

San Francisco, California
September 4, 2014

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

STATEMENT OF FINANCIAL POSITION

June 30, 2014

With comparative totals at June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014	2013
Assets					
Cash and cash equivalents (Note 2)	\$ 997,327	\$ -	\$ -	\$ 997,327	\$ 418,712
Other receivable	6,657			6,657	6,175
Bequest receivable	35,534			35,534	33,842
Pledges receivable - net (Note 3)		910,447		910,447	1,393,413
Prepaid expenses	123,511			123,511	84,666
Investments (Note 4)	1,031,049	1,424,265	3,603,833	6,059,147	5,753,482
Property and equipment (Note 6)	168,976			168,976	171,553
Total assets	\$ 2,363,054	\$ 2,334,712	\$ 3,603,833	\$ 8,301,599	\$ 7,861,843
Liabilities and net assets					
Liabilities					
Accounts payable	\$ 171,505	\$ -	\$ -	\$ 171,505	\$ 144,598
Accrued vacation payable	84,690			84,690	73,958
Total liabilities	256,195	-	-	256,195	218,556
Net assets					
Unrestricted	2,106,859			2,106,859	1,595,830
Temporarily restricted (Note 8)		2,334,712		2,334,712	2,443,624
Permanently restricted (Note 9)			3,603,833	3,603,833	3,603,833
Total net assets	2,106,859	2,334,712	3,603,833	8,045,404	7,643,287
Total liabilities and net assets	\$ 2,363,054	\$ 2,334,712	\$ 3,603,833	\$ 8,301,599	\$ 7,861,843

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, 2014

With comparative totals for the year ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014</u>	<u>2013</u>
Revenue and support					
Contributions	\$ 518,599	\$ 1,164,025	\$ -	\$ 1,682,624	\$ 1,248,697
Book sales, net of expenses of \$62,537	1,238,113			1,238,113	1,225,947
Bequests	675,348	330,507		1,005,855	303,232
In-kind donations (Note 2)	677,760			677,760	551,183
Investment income	185,051	122,748		307,799	48,337
Government contracts and grants	97,095			97,095	32,665
Other income	15,649	343		15,992	263
Net assets released from program restrictions	1,726,535	(1,726,535)		-	-
Total revenue and support	<u>5,134,150</u>	<u>(108,912)</u>	<u>-</u>	<u>5,025,238</u>	<u>3,410,324</u>
Expenses					
Program services	3,923,723			3,923,723	3,872,729
Support services	699,398			699,398	712,915
Total expenses	<u>4,623,121</u>	<u>-</u>	<u>-</u>	<u>4,623,121</u>	<u>4,585,644</u>
Change in net assets	511,029	(108,912)	-	402,117	(1,175,320)
Net assets, beginning of year	<u>1,595,830</u>	<u>2,443,624</u>	<u>3,603,833</u>	<u>7,643,287</u>	<u>8,818,607</u>
Net assets, end 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>

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, 2014

With comparative totals for the year ended June 30, 2013

	Program Services			Support Services		Total Support Services	Total Expenses
	Outreach Series	Library Support	Book Distribution	Total Program Services	Management and General		
Staff compensation	\$ 136,980	\$ 40,289	\$ 507,394	\$ 962,854	\$ 92,443	\$ 1,055,297	\$ 1,250,513
Taxes and benefits	30,994	10,793	154,441	265,560	26,162	291,722	344,077
Total personnel costs	167,974	51,082	661,835	1,228,414	118,605	247,571	1,594,590
Direct project grants		1,181,286		1,181,286			1,181,286
In-kind expenses	137,241	122,461	251,257	509,023	26,393	82,345	677,761
Rent	17,352	15,483	277,734	317,910	3,337	10,661	331,908
Contract services	27,380	24,432	108,106	181,165	5,266	86,307	272,738
Supplies	6,758	8,245	5,806	60,194	1,250	33,612	115,865
Repairs and maintenance	6,455	2,731	5,760	42,053	1,241	21,203	64,497
Bank charges	3,305	1,398	2,949	56,028	636	1,983	58,647
Rentals - equipment	654	277	55,174	56,688	126	392	57,206
Postage and delivery	521	283	29,631	30,900	100	16,942	47,942
Depreciation	1,837	777	33,296	37,549	353	1,102	39,004
Utilities	1,436	607	30,573	33,897	276	862	35,035
Printing	470	764	7,158	8,811	90	21,925	30,826
Telephone	1,915	811	22,590	27,025	368	1,533	28,926
Accounting, audit, and legal	5,557	4,958	10,173	23,039	1,069	3,334	27,442
Insurance	3,114	1,317	7,449	14,658	599	2,475	17,732
Travel	1,214	1,070	10,768	14,113	229	889	15,231
Advertising	2,038	862	3,972	8,691	392	1,223	10,306
Dues and subscriptions	616	201	2,160	3,378	86	3,025	6,489
Payroll processing	1,233	522	2,258	5,114	237	740	6,091
Networking - staff development	569	241	1,041	2,358	109	455	2,922
Licenses and fees	72	30	454	620	14	43	677
Interest expense							
Professional consulting fees							
Total 2014 functional expenses	\$ 387,711	\$ 160,221	\$ 1,724,485	\$ 3,923,723	\$ 160,776	\$ 538,622	\$ 4,623,121
Total 2013 functional expenses	\$ 518,091	\$ 165,430	\$ 1,639,084	\$ 3,872,729	\$ 155,888	\$ 557,027	\$ 4,385,644

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, 2014

With comparative totals for the year ended June 30, 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 402,117	\$ (1,175,320)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	39,004	38,154
(Gain) loss on investments	(196,304)	102,851
Reinvested interest and dividends	(111,458)	(151,080)
Change in allowance for doubtful accounts	(21,684)	(24,213)
Change in discount on pledges	(37,462)	(59,992)
Changes in operating assets and liabilities:		
(Increase) decrease in other receivable	(482)	1,476
(Increase) in bequest receivable	(1,692)	(1,612)
Decrease in pledges receivable	542,112	605,397
(Increase) in prepaid expenses	(38,845)	(27,866)
Increase (decrease) in accounts payable	26,907	(90,913)
Increase (decrease) in accrued vacation payable	10,732	(4,479)
Net cash provided (used) by operating activities	612,945	(787,597)
Cash flows from investing activities:		
Purchase of property and equipment	(36,427)	(10,491)
Proceeds from sale of investments	2,332,307	7,174,237
Purchase of investments	(2,330,210)	(5,025,048)
Net cash (used) provided by investing activities	(34,330)	2,138,698
Cash flows from financing activities:		
Principal payments on note payable	-	(1,000,000)
Net cash (used) by financing activities	-	(1,000,000)
Net increase in cash and cash equivalents	578,615	351,101
Cash and cash equivalents, beginning of year	418,712	67,611
Cash and cash equivalents, end of year	\$ 997,327	\$ 418,712
Supplemental disclosure:		
Operating activities reflected interest paid of:	\$ -	\$ 8,958

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, continued**

Advocacy

Friends continues the tradition of active and vocal support to ensure excellence in library services for all users. Friends' long and successful track record includes its critical role in passing four ballot measures over the last 20 years. Through its advocacy efforts, Friends helped pass a \$106 million bond measure to build and refurbish 24 neighborhood branch libraries city-wide (2000, Prop A), championing the Library Preservation Fund, ensuring increased library hours, services and budget (1994, Prop E); spearheading the legislative campaign to build a \$109.5 million new Main Library (1988, Prop A) and securing over \$9.7 million in state funding. Most recently, Friends helped pass a measure that will bring in over \$1.2 billion to the library by renewing the Library Preservation Fund (2007, Prop D). We continue to work with elected officials, community groups, and library administration to ensure a premier library system for San Francisco.

Programming

Through ongoing efforts to support the library, Friends connects readers with books and authors. Each year, Friends receives over 1,000,000 donated books, which it in turn resells to the public through two bookstores, online sales and a number of book sales (including the largest book sale on the west coast). The San Francisco Public Library also selectively acquires books from donated books to enhance the Library's collections. All proceeds benefit the Library and many books are also donated to schools and other non-profit organizations. In addition, Friends hosts special events for its members with well-known authors, and other special events such as "History in Your Hands" which allowed members to examine first hand items like the deed to Alcatraz in the San Francisco History Collection. In addition, Friends hosts a twice a year after hour event for its members in a branch library with a special program focus for each event.

2. **Summary of Significant Accounting Policies**

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

Basis of Presentation

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

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of Friends are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

THE FRIENDS AND FOUNDATION OF THE
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NOTES TO FINANCIAL STATEMENTS

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

Unrestricted. These generally result from revenue generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Temporarily Restricted. Friends reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from program or capital restrictions.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit Friends to expend all of the income (or other economic benefits) derived from the donated assets.

Cash and Cash Equivalents

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

Contributions and Pledges Receivable

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

Investments

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

Fair Value Measurements

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

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

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

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

continued

**THE FRIENDS AND FOUNDATION OF THE
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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 \$677,760.

Income Taxes

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

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

**THE FRIENDS AND FOUNDATION OF THE
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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, 2013 from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through September 4, 2014, 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, 2014, 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, 2014 of \$910,447 is expected to be collected as follows:

continued

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

3. Pledges Receivable, continued

<u>Year ended June 30,</u>	
2015	\$904,690
2016	13,416
2017	12,000
2018	12,000
2019	12,000
Thereafter	<u>4,000</u>
	958,106
Less: Allowance for doubtful pledges receivable	(38,326)
Unamortized discount on pledges receivable	<u>(9,333)</u>
	<u>\$910,447</u>

4. Investments

Investments at June 30, 2014 consist of the following:

Mutual funds	\$3,154,084
Fixed income	2,097,928
Equities	764,850
Cash equivalents	<u>42,285</u>
	<u>\$6,059,147</u>

Changes in investments for the fiscal year ended June 30, 2014 are as follows:

Investments, beginning of year	\$ 5,753,482
Interest and dividends	111,458
Gain on investments	196,304
Purchase of investments	2,330,210
Sale of investments	<u>(2,332,307)</u>
Investments, end of year	<u>\$ 6,059,147</u>

5. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2014 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 42,285	\$ -	\$ -	\$ 42,285
Mutual funds				
Intermediate government	2,035,446			2,035,446
Conservative allocation	1,097,541			1,097,541
Midcap value	<u>21,097</u>			<u>21,097</u>
Total mutual funds	<u>3,154,084</u>	-	-	<u>3,154,084</u>

continued

THE FRIENDS AND FOUNDATION OF THE
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NOTES TO FINANCIAL STATEMENTS

5. Fair Value Measurements, continued

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income				
US treasury notes and bonds		1,247,455		1,247,455
Corporate bonds high grade		271,486		271,486
ETF - fixed income		265,139		265,139
Agency securities		202,948		202,948
Other		<u>110,900</u>		<u>110,900</u>
Total fixed income	<u>-</u>	<u>2,097,928</u>	<u>-</u>	<u>2,097,928</u>
Equities				
Information technology	246,848		-	246,848
Consumer discretionary	134,409			134,409
Industrials	106,424			106,424
Consumer staples	87,111			87,111
Healthcare	82,230			82,230
Financials	40,716			40,716
Materials	33,447			33,447
Energy	33,193			33,193
Other	<u>472</u>			<u>472</u>
Total equities	<u>764,850</u>	<u>-</u>	<u>-</u>	<u>764,850</u>
	<u>\$3,961,219</u>	<u>\$2,097,928</u>	<u>\$ -</u>	<u>\$6,059,147</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, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributed services	<u>\$ -</u>	<u>\$677,760</u>	<u>\$ -</u>	<u>\$677,760</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).

continued

THE FRIENDS AND FOUNDATION OF THE
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NOTES TO FINANCIAL STATEMENTS

6. **Property and Equipment**

Property and equipment at June 30, 2014 consist of the following:

Leasehold improvements	\$ 409,713
Computers and software	233,707
Furniture and equipment	<u>217,530</u>
	860,950
Less: accumulated depreciation	<u>(691,974)</u>
	<u>\$ 168,976</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>	
2015	\$185,291
2016	190,850
2017	159,913
2018	91,842
2019	91,842
Thereafter	<u>221,950</u>
	<u>\$941,688</u>

Rental expense under operating leases for the year ended June 30, 2014 was \$331,908.

8. **Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2014 consist of the following:

Affinity groups and centers	\$ 779,484
Branch library support	495,521
Project Read	238,021
Children's programming	198,154
Dannenberg collection	119,723
Programs and exhibitions	28,647
Capital projects	20,259
Other	<u>454,903</u>
	<u>\$2,334,712</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, 2014, 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, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
The Mel Swig Endowment Fund	\$26,146	\$320,164	\$1,462,589	\$1,808,899
The James C. Hormel Endowment Fund	18,250	395,079	861,076	1,274,405
Phyllis C. Wattis Fund for the Main Library	7,779	138,390	1,000,000	1,146,169
The Fritz and Lilian Dannenberg Library Fund		118,528	255,168	373,696
The Schmulowitz Collection of Wit and Humor Endowment	<u>17</u>	<u>1,406</u>	<u>25,000</u>	<u>26,423</u>
Total funds	<u>\$52,192</u>	<u>\$973,567</u>	<u>\$3,603,833</u>	<u>\$4,629,592</u>

continued

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

NOTES TO FINANCIAL STATEMENTS

10. Endowment Funds, continued

Changes in endowment net assets for the fiscal years ended June 30, 2014 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	\$ 7,001	\$801,249	\$3,603,833	\$4,412,083
Interest/dividend income		89,207		89,207
Appropriation of endowment funds for expenditures	45,191	(45,191)		-
Net appreciation/ (depreciation)	_____	<u>128,302</u>	_____	<u>128,302</u>
Endowment net assets, end of year	<u>\$52,192</u>	<u>\$973,567</u>	<u>\$3,603,833</u>	<u>\$4,629,592</u>

11. Employee Benefit Plan

Friends has a deferred compensation plan available to all employees who have completed one year and one thousand or more hours of service, as defined. Employees may contribute any percent of their annual compensation provided it does not exceed maximum amounts as permitted by law. Friends made discretionary matching contributions equal to three percent of eligible compensation. Plan contributions shall be fully vested and not forfeitable when such plan contributions are made. Employer contributions under this plan for the year ended June 30, 2014 were \$28,240.