

# THE LIBRARY FOUNDATION

Audited Financial Statements

For the Year Ended June 30, 2018



MCDONALD JACOBS

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
The Library Foundation

We have audited the accompanying financial statements of The Library Foundation (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities 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.

### *Auditor's 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 organization'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 organization'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 Library Foundation as of June 30, 2018, and 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.

***Report on Summarized Comparative Information***

We have previously audited The Library Foundation's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 12, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*McDonald Jacoby, P.C.*

Portland, Oregon  
September 12, 2018

**THE LIBRARY FOUNDATION**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2018**  
**(With comparative totals for 2017)**

	2018	2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 536,607	\$ 450,170
Contributions receivable, net	100,518	169,563
Prepaid expenses and other assets	24,329	22,671
Investments	18,814,734	17,879,471
Split-interest and other agreements	587,580	581,855
Investments restricted for deferred compensation	88,420	63,633
Property and equipment, net	<u>15,425</u>	<u>17,418</u>
 TOTAL ASSETS	 <u>\$ 20,167,613</u>	 <u>\$ 19,184,781</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 45,877	\$ 27,084
Support payable to Multnomah County Library	168,978	162,565
Deferred compensation	88,420	63,633
Gift annuity payable	<u>4,776</u>	<u>5,035</u>
Total liabilities	<u>308,051</u>	<u>258,317</u>
Net assets:		
Unrestricted:		
Available for general operations	608,453	619,665
Board designated	<u>9,645,408</u>	<u>9,442,843</u>
Total unrestricted	10,253,861	10,062,508
Temporarily restricted	4,833,348	4,495,375
Permanently restricted	<u>4,772,353</u>	<u>4,368,581</u>
Total net assets	<u>19,859,562</u>	<u>18,926,464</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 20,167,613</u>	 <u>\$ 19,184,781</u>

See notes to financial statements.

**THE LIBRARY FOUNDATION**  
**STATEMENT OF ACTIVITIES**  
**For the year ended June 30, 2018**  
**(With comparative totals for 2017)**

	2018				2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>Revenues, gains and other support:</b>					
Private contributions and grants	\$ 482,050	\$ 915,500	\$ 377,053	\$ 1,774,603	\$ 1,587,760
Donated assets and services (in-kind)	-	465,700	-	465,700	498,686
Interest and dividend income, net of fees of \$38,424 for 2018 and \$35,522 for 2017	221,057	92,262	-	313,319	231,809
Net gains (losses) on investments	622,085	304,183	-	926,268	1,342,129
Net change in the value of contributions receivable from split-interest and other agreements	-	2,001	3,794	5,795	9,962
Other	348	-	-	348	563
Revenues, gains and other support	1,325,540	1,779,646	380,847	3,486,033	3,670,909
Net assets released from restrictions	1,441,673	(1,441,673)	-	-	-
Net assets transfer of restrictions	(22,925)	-	22,925	-	-
Total revenues, gains and other support	2,744,288	337,973	403,772	3,486,033	3,670,909
<b>Expenses:</b>					
Direct program support of Multnomah County Library:					
Early literacy	305,507	-	-	305,507	450,235
School-age literacy	836,721	-	-	836,721	817,628
Learning for life	74,234	-	-	74,234	79,744
Arts, culture and humanities programming	32,273	-	-	32,273	21,950
Books and materials	41,342	-	-	41,342	55,512
Library staff development and other	22,243	-	-	22,243	40,698
Total direct support	1,312,320	-	-	1,312,320	1,465,767
Program support of Multnomah County Library	636,156	-	-	636,156	590,025
Advocacy	260,000	-	-	260,000	260,000
Total program expenses	2,208,476	-	-	2,208,476	2,315,792
Management and general	249,723	-	-	249,723	209,468
Fundraising	94,736	-	-	94,736	81,262
Total expenses	2,552,935	-	-	2,552,935	2,606,522
Change in net assets	191,353	337,973	403,772	933,098	1,064,387
<b>Net assets:</b>					
Beginning of year	10,062,508	4,495,375	4,368,581	18,926,464	17,862,077
End of year	\$ 10,253,861	\$ 4,833,348	\$ 4,772,353	\$ 19,859,562	\$ 18,926,464

See notes to financial statements.

**THE LIBRARY FOUNDATION**  
**STATEMENT OF CASH FLOWS**  
**For the year ended June 30, 2018**  
**(With comparative totals for 2017)**

	2018	2017
<b>Cash flows from operating activities:</b>		
Cash received from donors and grantors	\$ 1,466,406	\$ 1,583,369
Cash received from investment earnings	351,743	267,331
Cash paid to Multnomah County Library	(840,207)	(976,078)
Cash paid to employees and vendors	<u>(1,252,584)</u>	<u>(1,171,706)</u>
Net cash used in operating activities	<u>(274,642)</u>	<u>(297,084)</u>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(6,979)	(11,192)
Reinvestment of dividend and interest income	(351,743)	(267,331)
Proceeds from sale of investments	1,771,565	2,215,449
Purchases of investments	<u>(1,428,817)</u>	<u>(1,708,188)</u>
Net cash provided by (used in) investing activities	<u>(15,974)</u>	<u>228,738</u>
<b>Cash flows from financing activities:</b>		
Contributions restricted for long-term investment	<u>377,053</u>	<u>12,520</u>
Net cash provided by financing activities	<u>377,053</u>	<u>12,520</u>
 Net increase (decrease) in cash and cash equivalents	 86,437	 (55,826)
<b>Cash and cash equivalents:</b>		
Beginning of year	<u>450,170</u>	<u>505,996</u>
 End of year	 <u>\$ 536,607</u>	 <u>\$ 450,170</u>

See notes to financial statements.

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**1. DESCRIPTION OF THE FOUNDATION**

The Library Foundation (the "foundation") was founded in 1995 to further the work of Multnomah County Library (the "library"), supporting the library's leadership and innovation and helping the library address emerging community needs through private support. The foundation and the library work together, in a strong partnership, to determine where private funds can be leveraged to have the greatest impact and at the same time, not supplant the public's responsibility for funding a strong library system. The foundation's revenues are supported with contributions, large and small, made by thousands of individuals, businesses and foundations.

Multnomah County Library is one of the most important cultural and educational resources in our region, playing a vital role in all of our community's endeavors from a healthy economy to the arts, from education to public affairs, from science to cultural engagement. With the third highest circulation of any public library in the nation, the library reaches more citizens in our county than any other public or private cultural and educational entity.

Last year, the library reached more than 210,000 people with foundation support. Of these, 194,000 children and adults were reached with proven literacy programs and services. Foundation support expanded the library's work with the hardest-to-reach and most-at-risk young people, taking books and effective programs directly into the lives of children, parents, grandparents, childcare providers and educators. An additional 16,000 people were reached through arts, cultural, literary and educational programs.

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2018**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

The foundation reports information regarding its financial position and activities according to three classes of net assets based on the existence or absence of donor-imposed restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets represent net assets not subject to donor-imposed stipulations.
- Temporarily restricted net assets represent net assets subject to donor-imposed stipulations that may or will be met by actions of the foundation and/or the passage of time.
- Permanently restricted net assets represent net assets subject to donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the foundation.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the foundation considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. Cash equivalents included with investments are considered investments.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair value in the statement of financial position. Investments in limited partnerships are reported at fair value as determined by the general partner. Net appreciation in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) of those investments, is presented in the statement of activities. Security transactions are recorded on a settlement date basis.

Property and Equipment

Acquisitions of property and equipment in excess of \$2,500 (\$500 in 2017) are capitalized. Capitalized property and equipment are recorded at cost if purchased or at fair value when acquired by gift. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from three to five years.

Support Payable to the Library

Library support is accrued when awarded by the foundation and is unconditional. Library support is provided from available income and principal in accordance with restrictions imposed by donors.

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2018**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Contributions

Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period the foundation is notified of the commitment. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Bequests are recorded as revenue at the time the foundation has an established right to the bequest and the proceeds are measurable. Unconditional contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose 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 restrictions. An allowance for uncollectible contributions receivable is provided based on management's judgment, including such factors as prior collection history, type of contribution, and nature of fundraising activity.

Outstanding Legacies

The foundation is the beneficiary under various wills and trust agreements, the total realizable amounts of which are not presently determinable. The foundation's share of such bequests is recorded when the probate court has declared the testamentary instrument valid and the proceeds are measurable.

Donated Assets and Services

Donations of property, equipment, materials and other assets are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

The foundation recognizes donated services that create or enhance nonfinancial 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. The foundation recorded approximately \$60,500 during the year ended June 30, 2018 (\$72,300 in 2017) for contributed media sponsorship and event coordination services, which are included in fundraising and direct support of the library. The foundation also recorded donated goods totaling approximately \$405,200 for the year ended June 30, 2018 (\$426,400 in 2017), which are included in direct support of the library. In addition, a number of volunteers made significant contributions of their time in the furtherance of the foundation's programs. The value of this contributed time is not reflected in the accompanying financial statements since the recognition criterion has not been met.

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2018**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Investment Income

Net assets of all funds are invested to maximize the return on investments based on the timing of expected use of the funds. Investment income is allocated monthly in proportion to the balance in each fund at the end of the prior month.

Income, realized net gains, and unrealized net gains on the investment of endowment and similar funds are reported as follows:

- As increases in permanently restricted net assets if the terms of the gift require that they be added to principal of a permanent endowment.
- As increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of income, until released from restriction after appropriation for expenditure.
- As increases in temporarily restricted net assets if there are no restrictions on the use of income, until after appropriation for expenditure.
- As an increase in unrestricted net assets in all other cases.

Gains and losses on investments and other assets or liabilities that are not part of the endowment are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Income Taxes

The foundation is organized as a nonprofit corporation and is exempt from federal and state tax under Section 501(c)(3) of the Internal Revenue Code and applicable state law from taxes on income derived from operations related to the purpose for which it was organized. Accordingly, no provision for income taxes has been recorded. The Library Foundation is not a private foundation.

The foundation follows the provisions of FASB ASC *Topic Accounting for Uncertainty in Income Taxes*. Management has evaluated the foundation's tax positions and concluded that there are no uncertain tax positions that require adjustment to the financial statements to comply with provisions of this Topic.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Summarized Financial Information for 2017

The financial information as of June 30, 2017, and for the year ended June 30, 2017, is presented for comparative purposes and is not intended to be a complete financial statement presentation.

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2018**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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 support and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Foundation has evaluated all subsequent events through September 12, 2018, the date the financial statements were available to be issued.

**3. CONTRIBUTIONS RECEIVABLE**

Contributions receivable represent unsecured and unconditional promises to give as follows at June 30, 2018 and 2017:

Contributions receivable:	2018	2017
Due within one year	\$ 98,776	\$ 170,248
Due in two to five years	2,500	-
Total contributions receivable	101,276	170,248
Less allowance for uncollectible accounts	758	685
Contributions receivable, net	<u>\$ 100,518</u>	<u>\$ 169,563</u>

**4. INVESTMENTS**

Investments at June 30, 2018 and 2017 consist of:

	2018	2017
Cash equivalents	\$ 25,848	\$ 1,654
Fixed income securities	6,537,017	6,480,857
Equity securities - domestic	6,282,908	5,438,834
Equity securities - international	4,995,110	5,698,002
Alternative investments	973,851	260,124
Total investments	<u>\$ 18,814,734</u>	<u>\$ 17,879,471</u>
Investments held for deferred compensation		
Cash equivalents	\$ 41,719	\$ 23,011
Equity fund	46,701	40,622
Total investments for deferred compensation	<u>\$ 88,420</u>	<u>\$ 63,633</u>

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2018**

**5. PROPERTY AND EQUIPMENT**

Property and equipment at June 30, 2018 and 2017 consist of:

	2018	2017
Furniture and equipment	\$ 59,386	\$ 63,805
Less accumulated depreciation	<u>43,961</u>	<u>46,387</u>
Property and equipment, net	<u>\$ 15,425</u>	<u>\$ 17,418</u>

**6. SPLIT-INTEREST AND OTHER AGREEMENTS**

Charitable Remainder Unitrust

The foundation is the beneficiary under a charitable remainder unitrust. A remainder trust provides for the payment of distributions to a designated beneficiary for the life of the beneficiary. At the end of the trust's terms, a portion of the remaining assets are available and will be distributed to the foundation as stipulated by the grantor. The present value of the future benefits to be received by the foundation is recorded in the statement of activities as a temporarily restricted contribution at the time the amount is measureable. The foundation will receive all of the assets that remain in the trust after the death of the beneficiary. The beneficiary receives distributions of 8% of the fair value of assets at the beginning of the year. Utilizing a 2.5% discount rate and the beneficiary's projected life, the estimated fair value of the amount receivable under this agreement is \$228,846 at June 30, 2018 (\$226,534 at June 30, 2017).

Charitable Gift Annuity

The foundation received a charitable gift annuity of \$10,000. Under the terms of the agreement, the donor receives quarterly payments of \$143 over the donor's remaining life. Using a discount rate of 2.5%, the estimated present value of the foundation's liability under this agreement is \$4,776 at June 30, 2018 (\$5,035 at June 30, 2017). Related assets included in split-interest and other agreements total \$3,090 at June 30, 2018 (\$3,471 at June 30, 2017).

Beneficial Interest in Perpetual Trust

The foundation is a beneficiary of a trust created through an estate. The asset recorded is determined by multiplying the total fair value of the Trust's assets by the foundation's percentage share. Any change to the value is reflected as a revaluation gain or loss in the current statement of activities. The beneficial interest in the perpetual trust is classified as a permanently restricted net asset. The estimated value of the foundation's interest in the trust was \$355,644 at June 30, 2018 (\$351,850 at June 30, 2017).

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2018**

**7. BOARD DESIGNATED NET ASSETS**

As of June 30, 2018, The Library Foundation's Board of Trustees had designated \$9,645,409 (\$9,442,843 in 2017) of unrestricted net assets as a quasi-endowment fund to provide for the future administration of the foundation and future support of foundation activities (See Note 17).

**8. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at June 30, 2018 and 2017 are restricted by donors either as to purpose or time, as follows:

	<u>2018</u>	<u>2017</u>
Undistributed endowment earnings - restricted purpose (Note 17)	\$ 1,098,696	\$ 968,144
Undistributed endowment earnings - unrestricted purpose (Note 17)	455,912	427,408
Split-interest and other agreements	227,720	225,719
Other restricted funds	<u>3,051,020</u>	<u>2,874,104</u>
Total temporarily restricted net assets	<u>\$ 4,833,348</u>	<u>\$ 4,495,375</u>

**9. PERMANENTLY RESTRICTED NET ASSETS**

As of June 30, 2018, the foundation held \$4,416,709 (\$4,016,731 at June 30, 2017) as part of its endowment funds. The investment income earned on the balances of these permanently restricted net assets is generally restricted as to purpose. Unexpended endowment income is reported as temporarily restricted until appropriated for expenditure (See Note 17).

Also included in permanently restricted net assets is the beneficial interest in a perpetual trust totaling \$355,644 at June 30, 2018 (\$351,850 at June 30, 2017) (See Note 17).

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2018**

**10. SUPPORT OF MULTNOMAH COUNTY LIBRARY**

The Library Foundation provided \$2,208,476 in program support for Multnomah County Library's work during the year ending June 30, 2018, enhancing 13 library programs and 15 different collections. Foundation-supported programs reached more than 210,000 people and made more than 117,000 books and materials available to children, families and adults. An additional 3,000 books and other materials were added to the permanent collection with foundation support.

In many communities, literacy programs are implemented by standalone nonprofits – not libraries – and can cost hundreds of dollars per child annually. But because The Library Foundation leverages Multnomah County Library's vast reach, expertise and partnerships, the library is able to provide proven programs for a fraction of the cost of standalone organizations.

The financial summary of foundation support for Multnomah County Library is shown below:

Cash support:	
Early literacy	\$ 305,507
School-age literacy	385,521
Learning for life	59,734
Books and materials	41,342
Arts, culture and humanities programming	32,273
Library staff development and other	<u>22,243</u>
Total cash support	846,620
In-kind support*	<u>465,700</u>
Total direct support	1,312,320
Program services support	636,156
Advocacy	<u>260,000</u>
Total support for the library	<u><u>\$ 2,208,476</u></u>

\*87% of in-kind support is incentive prizes for youth participating in Summer Reading.

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2018**

**11. CONCENTRATIONS OF CREDIT RISK**

The foundation maintains its cash balances at a financial institution and in custodial accounts. The balance held in bank accounts is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The balances, at times, may exceed the federally insured limit. Uninsured balances at June 30, 2018 approximated \$316,700 (\$221,100 at June 30, 2017). The remaining balances are fully insured or held in custodial accounts.

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position. Management believes that risk with respect to these balances is minimal, due to the placement of foundation investments with a wide array of financial institutions with high credit ratings, and the establishment of a diversified investment policy which limits the foundation's exposure to both credit risk and to concentrations of credit risk.

**12. OPERATING LEASE**

The foundation leases office space under a ten-year lease through July 2028. Rent expense was approximately \$47,200 for the year ended June 30, 2018 (\$44,300 in 2017). Base monthly rent is currently \$3,864 with annual increases. Minimum future lease payments are as follows:

Year ending June 30, 2019	\$ 46,400
2020	47,600
2021	49,100
2022	50,500
2023	52,100
Thereafter	<u>289,700</u>
Total	<u>\$ 535,400</u>

**13. RETIREMENT PLAN**

The foundation has a tax sheltered annuity plan, as defined under Internal Revenue Code Section 403(b), for all employees who meet eligibility requirements and elect to participate. Employees may make voluntary contributions to the plan on a pre-tax basis, up to the limits allowed by law. Employees are fully vested in both voluntary employee contributions and foundation contributions made at the discretion of the Board of Trustees. During the years ended June 30, 2018 and 2017, the foundation contributed an amount equal to 3% of employee's compensation and matched employee contributions up to an additional 3%. Contributions to the plan totaled \$29,250 for the year ended June 30, 2018 (\$31,087 in 2017).

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2018**

**14. DEFERRED COMPENSATION**

During the year ended June 30, 2016, the foundation established a deferred compensation plan covering one employee. The plan is unfunded; however, the foundation maintains investments in a separate account for the plan. All investments in the account are considered Level 1 (see Note 16 for definition). The plan allows participants to make elective deferrals, and the foundation to make employer contributions at the discretion of the Board, up to the amount allowed by law. Contributions by the foundation to the plan totaled \$18,500 for the year ended June 30, 2018 (\$18,000 in 2017).

**15. STATEMENT OF CASH FLOWS RECONCILIATION**

The following presents a reconciliation of the change in net assets (as reported on the statement of activities) to net cash used in operating activities (as reported on the statement of cash flows):

	<u>2018</u>	<u>2017</u>
Change in net assets	\$ 933,098	\$ 1,064,387
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	8,972	7,654
Change in reserve for uncollectible pledges	73	(5,958)
Net realized/unrealized gain on investments	(926,268)	(1,342,129)
Contributions restricted for long-term investment	(377,053)	(12,520)
Net change in actuarial value of split-interest agreements	(5,795)	(9,962)
(Increase) decrease in:		
Contributions receivable	74,767	23,840
Split-interest and other agreements	(5,725)	(9,509)
Prepaid expenses and other assets	(1,658)	(3,455)
Increase (decrease) in:		
Accounts payable and other liabilities	18,534	(435)
Support payable to Multnomah County Library	<u>6,413</u>	<u>(8,997)</u>
Net cash used in operating activities	<u>\$ (274,642)</u>	<u>\$ (297,084)</u>

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2018**

**16. FAIR VALUE MEASUREMENTS**

Assets and liabilities recorded at fair value in the statement of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2: Observable inputs other than those included in Level 1, such as quoted market prices for similar assets or liabilities in active markets, or quoted market prices for identical assets or liabilities in inactive markets.

Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation.

Net asset value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, is used as a practical expedient to estimate the fair values of certain hedge funds, private equity funds, funds of funds, and limited partnerships, which do not have readily determinable fair values. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy.

Fair values of assets measured on a recurring basis at June 30, 2018 are as follows:

	Total	Level 1	Level 3	Investments Measured at NAV
Fixed income	\$ 5,327,819	\$ 5,327,819	\$ -	\$ -
Fixed income - long term	1,209,198	1,209,198	-	-
Mutual funds - domestic	4,245,986	4,245,986	-	-
Mutual funds - long term - domestic	2,083,623	2,083,623	-	-
Mutual funds - international	3,368,949	3,368,949	-	-
Mutual funds - long term - international	1,626,161	1,626,161	-	-
Alternative - real estate partnership	326,944	-	-	326,944
Alternative - private equity funds	646,907	-	-	646,907
Beneficial interests in charitable remainder trusts	228,846	-	228,846	-
Beneficial interest in perpetual trust	355,644	-	355,644	-

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2018**

**16. FAIR VALUE MEASUREMENTS, Continued**

Fair values for publically traded investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

Fair value for the contribution receivable from charitable remainder trusts is determined using an income approach by calculating the present value of the future distributions to be received using published life expectancy tables and discount rates of 4.2%-6%.

Fair value for the beneficial interest in perpetual trust is determined using an income approach by multiplying the total fair value of the trust's assets by the foundation's percentage share as stated in the trust document.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs):

Contribution receivable - beneficial interest in charitable remainder trust:

Balance at beginning of year	\$ 226,534
Distributions	(14,761)
Change in value of split-interest agreement - temporarily restricted	<u>17,073</u>
Balance at end of year	<u><u>\$ 228,846</u></u>

Beneficial interest in perpetual trust:

Balance at beginning of year	\$ 351,850
Change in value of split-interest agreement - permanently restricted	<u>3,794</u>
Balance at end of year	<u><u>\$ 355,644</u></u>

Change in value of split-interest agreements is included in net change in actuarial value of contributions receivable from split-interest agreements on the statement of activities.

Investment Valued at Net Asset Value (NAV)

Private Equity Funds – Funds that can invest long and short, primarily in common stocks. Fund managers may invest in value, growth, or event-driven equity opportunities and typically are not restricted by market capitalization, industry sector, or geography. Leverage may be utilized, which can magnify changes in the values of the underlying securities.

Real Estate Partnership – Funds focused on growth in real estate, equity, buyout opportunities, or distressed debt. These investments are not readily redeemable; however, a secondary market does exist. Distributions normally are received through the liquidation of the underlying assets in the fund. The terms of these investments range from three to ten years.

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
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**17. ENDOWMENT**

The foundation's endowment consists of 51 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

As a matter of policy, the Board of Trustees of the foundation has preserved 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 policy, the foundation 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 in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by the Uniform Prudent Management of Institutional Funds Act (the Act). In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the foundation
- (7) The investment policies of the foundation

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

	Board Designated	<u>Donor-Restricted Endowment</u>		
	Quasi- Endowment	Temporarily Restricted	Permanently Restricted	Total
<b>June 30, 2018</b>				
Donor-restricted	\$ -	\$ 1,554,608	\$ 4,416,709	\$ 5,971,317
Board-designated	9,645,408	-	-	9,645,408
Included in investments	9,645,408	1,554,608	4,416,709	15,616,725
Beneficial interest in perpetual trust	-	-	355,644	355,644
Total endowment net assets	<u>\$ 9,645,408</u>	<u>\$ 1,554,608</u>	<u>\$ 4,772,353</u>	<u>\$ 15,972,369</u>

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
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**17. ENDOWMENT, Continued**

Changes in endowment net assets for the year ended June 30, 2018:

	Board Designated Quasi- Endowment	Donor-Restricted Endowment Temporarily Restricted	Permanently Restricted	Total
Endowment net assets -				
Beginning of year	\$ 9,442,843	\$ 1,395,552	\$ 4,368,581	\$ 15,206,976
Contributions	80,781	-	377,053	457,834
Investment return:				
Investment earnings, net	183,115	78,801	-	261,916
Net realized and unrealized appreciation	648,669	259,612	-	908,281
Fund transfers	-	(50,000)	22,925	(27,075)
Appropriation of endowment assets for expenditure	(710,000)	(129,357)	-	(839,357)
Change in value of perpetual trust	-	-	3,794	3,794
Total changes	202,565	159,056	403,772	765,393
Endowment net assets -				
end of year	\$ 9,645,408	\$ 1,554,608	\$ 4,772,353	\$ 15,972,369

Cumulative Endowment Adjustment

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or the Act requires the foundation to retain as a fund of perpetual duration. No balances were below the required level at June 30, 2018 and 2017.

Return Objectives and Risk Parameters

The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the foundation must hold in perpetuity or for donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of various indexes while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The foundation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
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**17. ENDOWMENT, Continued**

Spending Policy and How the Investment Objectives Relate to Spending Policy

The foundation has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value over the prior 12 quarters through the fiscal year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the foundation expects the current spending policy to allow its endowment to continue to grow. It is the foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.