



The Seattle Public Library Foundation

Financial Statements

For the Years Ended December 31, 2018 and 2017

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Independent Auditor's Report

**To the Board of Directors
The Seattle Public Library Foundation
Seattle, Washington**

We have audited the accompanying financial statements of The Seattle Public Library Foundation (the Foundation), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standard

As discussed in Note 1, the Foundation adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Clark Nuber P.S.

Certified Public Accountants
May 1, 2019

THE SEATTLE PUBLIC LIBRARY FOUNDATION

**Statements of Financial Position
December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents	\$ 2,987,097	\$ 4,281,753
Promises to give, net	10,280	144,241
Prepaid expenses and other assets	34,379	13,966
Investments	60,579,526	64,947,247
Split interest agreement	617,933	644,276
Beneficial interest in assets held by Seattle Foundation	3,119,446	3,491,729
Equipment, net	<u>18,250</u>	<u>1,112</u>
Total Assets	<u>\$ 67,366,911</u>	<u>\$ 73,524,324</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 268,008	\$ 269,836
Grants payable to The Seattle Public Library	<u>1,088,652</u>	<u>1,051,885</u>
Total Liabilities	1,356,660	1,321,721
Net Assets:		
Without donor restrictions	18,438,776	19,673,153
With donor restrictions	<u>47,571,475</u>	<u>52,529,450</u>
Total Net Assets	<u>66,010,251</u>	<u>72,202,603</u>
Total Liabilities and Net Assets	<u>\$ 67,366,911</u>	<u>\$ 73,524,324</u>

See accompanying notes.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:						
Contributions	\$ 2,203,015	\$ 1,326,121	\$ 3,529,136	\$ 1,500,994	\$ 1,145,498	\$ 2,646,492
In-kind contributions	4,592	503,365	507,957	3,453	517,067	520,520
Investment return, net	(825,726)	(2,787,008)	(3,612,734)	2,611,375	6,883,272	9,494,647
Total Support and Revenue						
Before Net Assets Released From Restrictions	1,381,881	(957,522)	424,359	4,115,822	8,545,837	12,661,659
Net Assets Released From Restrictions:						
Satisfaction of purpose restrictions	3,419,953	(3,419,953)		3,087,147	(3,087,147)	
Satisfaction of time restrictions	580,500	(580,500)		500,000	(500,000)	
Total Support and Revenue	5,382,334	(4,957,975)	424,359	7,702,969	4,958,690	12,661,659
Expenses:						
Grants made to The Seattle Public Library-						
Collections and resources	1,568,961		1,568,961	1,375,731		1,375,731
Collections and resources - In-kind	92,780		92,780	94,000		94,000
Library programs and marketing	2,309,572		2,309,572	2,203,525		2,203,525
Library programs and marketing - In-kind	400,585		400,585	421,567		421,567
Capital improvements	595,596		595,596	430,052		430,052
Other	398,227		398,227	359,580		359,580
Other - In-kind	4,592		4,592	3,454		3,454
Total Program Expenses	5,370,313		5,370,313	4,887,909		4,887,909
Management and general	725,092		725,092	666,492		666,492
Fundraising	521,306		521,306	418,833		418,833
Total Expenses	6,616,711		6,616,711	5,973,234		5,973,234
Change in Net Assets	(1,234,377)	(4,957,975)	(6,192,352)	1,729,735	4,958,690	6,688,425
Net assets, beginning of year	19,673,153	52,529,450	72,202,603	17,943,418	47,570,760	65,514,178
Net Assets, End of Year	\$ 18,438,776	\$ 47,571,475	\$ 66,010,251	\$ 19,673,153	\$ 52,529,450	\$ 72,202,603

See accompanying notes.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

**Statement of Functional Expenses
For the Year Ended December 31, 2018**

	Program	General and Administrative	Fundraising	Total
Grants to The Seattle Public Library	\$ 5,031,796	\$ -	\$ -	5,031,796
Salaries and benefits	334,115	452,939	319,631	1,106,685
Accounting fees		23,853		23,853
Bank fees		1,274	43,591	44,865
Staff development		2,710	275	2,985
Equipment		167		167
Cultivation and stewardship		51,701	7,655	59,356
IT services		15,054	40,256	55,310
Insurance		10,592		10,592
Memberships and sponsorships		1,729	1,134	2,863
Postage		6,419	13,081	19,500
Printing		11,442	48,795	60,237
Professional services	4,402	36,007	39,467	79,876
Supplies		9,035	3,685	12,720
Telephone		2,824		2,824
Transportation		14,331	2,815	17,146
Depreciation		1,830		1,830
Other		83,185	921	84,106
Total Functional Expenses	\$ 5,370,313	\$ 725,092	\$ 521,306	\$ 6,616,711

See accompanying notes.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

**Statement of Functional Expenses
For the Year Ended December 31, 2017**

	Program	General and Administrative	Fundraising	Total
Grants to The Seattle Public Library	\$ 4,593,054	\$ -	\$ -	4,593,054
Salaries and benefits	294,855	407,169	282,211	984,235
Accounting fees		22,617		22,617
Bank fees		2,030	37,048	39,078
Staff development		825	1,065	1,890
Equipment		1,542	47	1,589
Cultivation and stewardship		36,910	9,845	46,755
IT services		46,939	16,077	63,016
Insurance		10,027		10,027
Memberships and sponsorships		2,120	715	2,835
Postage		3,668	7,707	11,375
Printing		15,148	44,045	59,193
Professional services		18,238	17,470	35,708
Supplies		4,428	24	4,452
Telephone		2,343		2,343
Transportation		11,593	1,983	13,576
Depreciation		773		773
Other		80,122	596	80,718
Total Functional Expenses	\$ 4,887,909	\$ 666,492	\$ 418,833	\$ 5,973,234

See accompanying notes.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities:		
Cash received from-		
Donors	\$ 3,086,334	\$ 2,921,036
Investments	1,479,850	1,295,855
Cash paid for-		
The Seattle Public Library grants	(4,835,589)	(4,517,555)
Services and supplies, including general and administrative expenses paid to The Seattle Public Library	<u>(1,264,697)</u>	<u>(1,211,300)</u>
Net Cash Used in Operating Activities	(1,534,102)	(1,511,964)
Investing Activities:		
Purchase of investments	(9,671,070)	(7,219,161)
Proceeds from sale of investments	9,273,040	7,154,042
Purchase of equipment	<u>(15,026)</u>	<u>(935)</u>
Net Cash Used in Investing Activities	(413,056)	(66,054)
Financing Activities:		
Proceeds from split interest agreements	65,000	65,000
Cash received for endowment contributions	<u>587,502</u>	<u>424,671</u>
Net Cash Provided by Financing Activities	652,502	489,671
Change in Cash and Cash Equivalents	(1,294,656)	(1,088,347)
Cash and cash equivalents, beginning of year	<u>4,281,753</u>	<u>5,370,100</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,987,097</u>	<u>\$ 4,281,753</u>

See accompanying notes.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Statements of Cash Flows (Continued)
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities:		
Change in net assets	\$ (6,192,352)	\$ 6,688,425
Adjustments to reconcile change in net assets to net cash used in operating activities-		
Noncash changes:		
Realized and unrealized loss (gain) on investments	4,879,379	(7,655,486)
Change in value of beneficial interest in assets held by Seattle Foundation	258,655	(494,482)
Change in value of split interest agreement	(38,657)	(40,148)
Depreciation	1,831	773
In-kind contributions	(507,957)	(520,520)
In-kind contributions to The Seattle Public Library	497,957	519,021
Noncash change in pledges receivable	10,000	
Other noncash expense		1,499
Gain on retirement of equipment	(3,942)	
Contributions received for endowment	(502,788)	(152,041)
Changes in assets and liabilities:		
Promises to give, net	49,246	415,635
Prepaid expenses and other assets	(20,413)	(654)
Accounts payable and accrued liabilities	(1,828)	(125,321)
Grants payable to The Seattle Public Library	36,767	(148,665)
Net Cash Used in Operating Activities	<u>\$ (1,534,102)</u>	<u>\$ (1,511,964)</u>

See accompanying notes.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements For the Years Ended December 31, 2018 and 2017

Note 1 - Organization and Significant Accounting Policies

Organization - The Seattle Public Library Foundation (the Foundation) helps The Seattle Public Library (the Library) build its collection and resources, offer programs for patrons of all ages, and better serve the needs of our community. The Foundation secures and manages contributions from individuals, businesses and foundations to support the Library above and beyond what public funding provides.

The Foundation is a not-for-profit corporation established in 1980 and is governed by a volunteer Board of Directors. A professional staff raises and administers gifts and ensures the effectiveness of funded programs.

Since its founding, the Foundation has raised more than \$169 million for the Library to support:

- Building new and revitalized libraries in every neighborhood
- Programming for children, teens and adults
- Books and materials, including support for special collections
- Services for those with special needs, such as the disabled, immigrants and refugees
- Technology resources for library patrons

Basis of Presentation - The Foundation has presented its financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Foundation has presented an unclassified statement of financial position which sequences assets according to their nearness of conversion to cash and sequences liabilities according to the nearness of their maturity and resulting use of cash.

The Foundation classifies net assets, revenues, gains, and losses based on the existence or absence of donor-imposed restrictions. Net assets are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category include contributions without donor restrictions, investment earnings that are not donor-restricted, expenses associated with grants made to the Library, and the operating activities of the Foundation. The Board of Directors has also established a Board-designated endowment (quasi-endowment) which is included in this category.

Net Assets With Donor Restrictions - Net assets restricted by donors to be used for certain purposes or for future periods, including donor-restricted endowments whose corpus is intended to be held in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets.

Revenue Recognition - Contributions are recognized in the period received, including unconditional promises to give when made, at their fair value. Conditional promises to give are recognized when the conditions on which the promises depend are substantially met.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements For the Years Ended December 31, 2018 and 2017

Note 1 - Continued

Cash and Cash Equivalents - Cash and cash equivalents consist of checking accounts, money market accounts, and highly liquid investments purchased with an original maturity of three months or less. The carrying amount of these assets approximates fair value due to the short maturity of the instruments. The Foundation maintains its cash and cash equivalents in accounts that exceed federally insured limits at times during the year. The Foundation has not experienced any losses in these accounts, and management does not believe it is exposed to a significant credit risk.

Promises to Give - 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 the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

Conditional promises to give are recognized as revenue when the condition on which they depend are substantially met. There were no conditional promises to give as of December 31, 2018. Conditional promises to give totaled approximately \$45,000 as of December 31, 2017.

Concentration of Credit Risk - Financial instruments that potentially subject the Foundation to concentrations of credit risk consist of cash and investment balances. The Foundation has established guidelines relative to diversification and maturities that seek to maintain safety and liquidity. As of December 31, 2018 and 2017, approximately 83% and 89%, respectively, of the Foundation's investment portfolio was invested in four exchange traded funds and mutual funds.

A contribution received from one donor for the year ended December 31, 2018 accounted for approximately 21% of contribution revenues, and a contribution from one donor for the year ended December 31, 2017 accounted for approximately 14% of contribution revenues. Promises to give from three donors accounted for 65% of the outstanding balance as of December 31, 2018, and promises to give from four donors accounted for 64% of the outstanding balance as of December 31, 2017.

Investments - Investments in all debt securities and equity securities with readily determinable market values are recorded at fair value. The fair value of investments in securities traded on national securities exchanges is valued at the closing price on the last business day of the fiscal year. Money market accounts held in the investment portfolio are reported at cost plus accrued interest. Brokered certificates of deposit are valued using quoted prices in active markets for similar instruments. Contributed investments are recognized at their fair values on the date received. Beneficial interests in assets held by Seattle Foundation and in a split interest agreement are reported at fair value (Notes 5 and 6).

Equipment - Equipment is recorded at cost, or in the instance of donated properties, at fair value as of the date of the gift. Generally, equipment purchases that exceed \$1,000 are capitalized as assets. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, typically five years. Accumulated depreciation totaled \$2,845 and \$4,957 as of December 31, 2018 and 2017, respectively.

Grants Payable to The Seattle Public Library - The Foundation makes annual gifts to the Library to support Library programs. The amount granted each year is approved by the Foundation's Board of Directors and is partially determined by the Foundation's endowment spending policy (Note 9). Grants awarded but not yet distributed to the Library at year end are reported as grants payable to The Seattle Public Library in the statements of financial position.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements For the Years Ended December 31, 2018 and 2017

Note 1 - Continued

Donated Goods and Services - The Foundation receives donations of goods and services (in-kind), which are recorded at fair value on the date of receipt. The Foundation recognizes donated services if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills provided by individuals possessing those skills and would typically need to be purchased if not donated.

Fair Value Measurements and Valuation Techniques - In accordance with U.S. GAAP, a three-tiered hierarchy of input levels is used for fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date. Valuation techniques utilized to determine fair value are consistently applied. The three tiers of inputs used for fair value measurements are as follows:

Level 1 - Fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2 - Fair values are based on observable inputs that include: quoted market prices for similar assets and liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.

Level 3 - Fair values are calculated based on pricing models and/or discounted cash flow methodologies and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

Functional Allocation of Expenses - The costs of providing the various programs and activities of the Foundation are summarized on a functional basis. Accordingly, certain costs have been allocated among programs and services benefited on a reasonable basis that is consistently applied. Salaries and benefits are allocated based on studies of time and effort spent. Other expenses are allocated based generally on the direct resources used or required by the applicable function or activity. These allocation methods include time and effort expended of targeted staff for the specific function or activity, actual expenditures incurred during the function or activity such as travel costs, catering costs, materials generation (printing, assembly, mailing costs), and other external vendor costs allocated based on content and the nature of the particular program, if applicable, or operating expense incurred.

Federal Income Tax - The Internal Revenue Service has recognized the Foundation as exempt from federal income taxes under provision of Section 501(a) of the Internal Revenue Code as an entity described in Section 501(c)(3) and is not a private foundation.

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

**Notes to Financial Statements
For the Years Ended December 31, 2018 and 2017**

Note 1 - Continued

New Accounting Pronouncement - During the year ended December 31, 2018, the Foundation adopted the requirements of the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* required for the Foundation's year ended December 31, 2018. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity and availability of financial assets has also been added (Note 11).

Subsequent Events - The Foundation has evaluated subsequent events through May 1, 2019, the date on which the financial statements were available to be issued.

Note 2 - Promises to Give

Unconditional promises to give are as follows as of December 31:

	<u>2018</u>	<u>2017</u>
Promises to give expected in less than one year	\$ 31,517	\$ 37,405
Promises to give expected in one to five years	<u>4,073</u>	<u>132,406</u>
	35,590	169,811
Allowance for uncollectible promises to give	(25,000)	(25,000)
Present value discount (0.27% to 0.35%)	<u>(310)</u>	<u>(570)</u>
Promises to Give, Net	<u>\$ 10,280</u>	<u>\$ 144,241</u>

Activity in the allowance for uncollectible promises to give is as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Allowance, beginning of year	\$ 25,000	\$ 25,000
Write-off of uncollectible promises to give	(12,239)	(9,450)
Change in provision for uncollectible promises to give	<u>12,239</u>	<u>9,450</u>
Allowance, End of Year	<u>\$ 25,000</u>	<u>\$ 25,000</u>

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements
For the Years Ended December 31, 2018 and 2017

Note 3 - Investments

Investments are presented in the statements of financial position as follows as of December 31:

	<u>2018</u>	<u>2017</u>
Investments	\$ 60,579,526	\$ 64,947,247
Beneficial interest in assets held by Seattle Foundation	3,119,446	3,491,729
Split interest agreement	<u>617,933</u>	<u>644,276</u>
Total Investments	<u>\$ 64,316,905</u>	<u>\$ 69,083,252</u>

Investment return is reported net of investment fees and expenses in the statements of activities and changes in net assets and consists of the following for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 1,598,916	\$ 1,409,019
Realized gain	3,092,765	597,860
Unrealized (loss) gain	(7,972,144)	7,057,626
Change in value of beneficial interest in Seattle Foundation	(258,655)	494,482
Change in value of split interest agreement	38,657	40,148
Investment fees and expenses	<u>(112,273)</u>	<u>(104,488)</u>
Investment Return, Net	<u>\$ (3,612,734)</u>	<u>\$ 9,494,647</u>

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements
For the Years Ended December 31, 2018 and 2017

Note 4 - Fair Value Measurements

Fair values of investments measured on a recurring basis are as follows:

	Fair Value Measurements as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Exchange traded index and mutual funds-				
Vanguard Total Stock Market ETF (U.S. Equities)	\$ 20,897,116	\$ -	\$ -	\$ 20,897,116
Vanguard All World ex-U.S ETF (Non-U.S. Equities)	14,708,438			14,708,438
Vanguard Total Bond Market ETF (U.S. Bonds)	5,443,672			5,443,672
Metropolitan West Total Return Bond I (U.S. Bonds)	7,665,031			7,665,031
PIMCO Total Return Fund (Flexible Bond Fund)	10,127,066			10,127,066
Total exchange traded index and mutual funds	58,841,323			58,841,323
Cash and money market funds held for investment	771,514			771,514
Certificates of deposit		966,689		966,689
Beneficial interest in assets held by Seattle Foundation			3,119,446	3,119,446
Split interest agreement			617,933	617,933
Investments Reported at Fair Value	\$ 59,612,837	\$ 966,689	\$ 3,737,379	\$ 64,316,905

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements
For the Years Ended December 31, 2018 and 2017

Note 4 - Continued

	Fair Value Measurements as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Exchange traded index and mutual funds-				
Vanguard Total Stock Market ETF (U.S. Equities)	\$ 27,497,248	\$ -	\$ -	\$ 27,497,248
Vanguard All World ex-U.S ETF (Non-U.S. Equities)	14,423,645			14,423,645
Vanguard Total Bond Market ETF (U.S. Bonds)	5,292,633			5,292,633
Metropolitan West Total Return Bond I (U.S. Bonds)	7,518,502			7,518,502
PIMCO Total Return Fund (Flexible Bond Fund)	9,808,720			9,808,720
Total exchange traded index and mutual funds	64,540,748			64,540,748
Cash and money market funds held for investment	406,499			406,499
Beneficial interest in assets held by Seattle Foundation			3,491,729	3,491,729
Split interest agreement			644,276	644,276
Investments Reported at Fair Value	\$ 64,947,247	\$ -	\$ 4,136,005	\$ 69,083,252

Following is a description of the valuation methodologies used for investments measured at fair value on a recurring basis. There have been no changes in the methodologies used as of December 31, 2018 and 2017.

Exchange Traded Index and Mutual Funds - Exchange traded index and mutual funds are valued at quoted market prices in active markets, which represent the net asset value (NAV) of shares held at year end.

Certificates of Deposit - Brokered certificates of deposit are valued using quoted prices in active markets for similar instruments.

Cash and Money Market Funds - Cash and money market funds are valued at cost plus accrued interest, which approximates fair value.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

**Notes to Financial Statements
For the Years Ended December 31, 2018 and 2017**

Note 4 - Continued

Beneficial Interest in Assets Held by Seattle Foundation - The Foundation is the beneficiary of an affiliated agency fund held with Seattle Foundation (Note 5). The Foundation does not have a direct claim to any individual assets within the affiliated agency fund but rather at the aggregate level of the assets within the fund. Since the affiliated agency fund is comprised of many different investments with varying levels of observable inputs, the valuation of the entire portfolio cannot directly be corroborated by the Foundation with observable market data. Thus, the Foundation's beneficial interest in this fund is reported at Level 3.

Split Interest Agreement - The split interest agreement (Note 6) is valued using a discounted cash flow model based on the present value of the estimated future benefits to be received, which is a Level 3 input.

A reconciliation of the beginning and ending balances for fair value measurement made using significant unobservable inputs (Level 3) is as follows for the years ended December 31:

	Beneficial Interest in Assets Held by Seattle Foundation	Split Interest Agreement	Total
Fair value, January 1, 2017	\$ 3,109,398	\$ 669,128	\$ 3,778,526
Change in value included in the change in net assets	494,482	40,148	534,630
Distributions received	<u>(112,151)</u>	<u>(65,000)</u>	<u>(177,151)</u>
Fair Value, December 31, 2017	3,491,729	644,276	4,136,005
Change in value included in the change in net assets	(258,655)	38,657	(219,998)
Distributions received	<u>(113,628)</u>	<u>(65,000)</u>	<u>(178,628)</u>
Fair Value, December 31, 2018	<u>\$ 3,119,446</u>	<u>\$ 617,933</u>	<u>\$ 3,737,379</u>

Note 5 - Beneficial Interest in Assets Held by Seattle Foundation

The Foundation holds funds at Seattle Foundation that are subject to Seattle Foundation's variance power and from which the Foundation may receive annual payouts. The Foundation's beneficial interest in these funds is recorded as an asset in the statements of financial position. However, the timing and amount of payouts are determined by the policies of Seattle Foundation and are not controlled by the Foundation. The Foundation's interest in the gains and losses of the fund assets, less distributions, is recognized and included in investment earnings in the statements of activities and changes in net assets.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements For the Years Ended December 31, 2018 and 2017

Note 6 - Split Interest Agreements

During the year ended December 31, 2015, the Foundation became a beneficiary of a charitable lead annuity trust (the Trust). The Trust provides for estimated annual payments to the Foundation of \$65,000 over the Trust's term of eighteen years. The Foundation's interest in the Trust was estimated to be \$1,170,000; however, the interest in the Trust is recorded at the net present value of the estimated future payments to be received using a present value discount rate of 6%. Therefore, contribution revenue totaling \$703,794 was recognized in the statements of activities and changes in net assets during the year ended December 31, 2015. The Foundation's outstanding interest in the Trust is adjusted each year to reflect the annual distributions received and the amortization of the present value discount. During the years ended December 31, 2018 and 2017, the Foundation received distributions from the Trust totaling \$65,000 each year. The Foundation's interest in the gains of the Trust are included in investment earnings in the statements of activities and changes in net assets and totaled \$38,657 and \$40,148 for the years ended December 31, 2018 and 2017, respectively. The Foundation's outstanding interest in the trust, at net present value, totals \$617,933 and \$644,276 as of December 31, 2018 and 2017, respectively, and is recorded in the statements of financial position (Note 4). The Foundation's accumulated net asset balance related to the Trust, which consists of the original contribution revenue of \$703,794 plus the cumulative annual amortization of the present value discount, totals \$845,433 and \$806,776 as of December 31, 2018 and 2017 (Note 8).

Note 7 - Net Assets Without Donor Restrictions

Net assets without donor restrictions are available for the following purposes as of December 31:

	<u>2018</u>	<u>2017</u>
Undesignated	\$ 11,082,781	\$ 11,554,169
Board-designated-		
General quasi-endowment	5,000,000	5,000,000
Accumulated earnings on quasi-endowments	1,755,995	2,518,984
The Seattle Room and Center for Local History	<u>600,000</u>	<u>600,000</u>
Total board-designated	<u>7,355,995</u>	<u>8,118,984</u>
Total Net Assets Without Donor Restrictions	<u><u>\$ 18,438,776</u></u>	<u><u>\$ 19,673,153</u></u>

Board-Designated for Quasi-Endowment - The Foundation's Board of Directors has created a quasi-endowment with funds that are not anticipated to be needed for a minimum of three years based on ongoing cash flow analysis, when it is desired to invest otherwise spendable assets to produce future spendable income. Also designated by the Board of Directors are the accumulated earnings on the quasi-endowment. While the Board of Directors retains the right to expend the principal amount of the designated quasi-endowment at any time, the intention is to maintain the principal for at least ten years.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

**Notes to Financial Statements
For the Years Ended December 31, 2018 and 2017**

Note 7 - Continued

The Seattle Room and Center for Local History - The Foundation's Board of Directors has created a quasi-endowment designated to be used for The Seattle Room and Center for Local History, with funds that are not anticipated to be needed for a minimum of three years based on ongoing cash flow analysis. The funds are invested to produce spendable income to be used to support the designated purpose of The Seattle Room and Center for Local History.

The two quasi-endowment funds above both follow the same investment and spending policy utilized for the Foundation's Endowment fund (Note 9). Similar to the endowment fund process described in Note 9, the Board currently has a policy of appropriating for distribution each year 4.25% of the quasi-endowment funds' average fair value as of June 30 of each year, using values over the prior twelve quarters.

Note 8 - Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following as of December 31:

	<u>2018</u>	<u>2017</u>
Subject to the Passage of Time or Expenditure for Specified Purpose:		
Collections and resources	\$ 9,797,835	\$ 12,701,643
Library programs	5,859,170	7,787,689
Capital improvements	114,119	243,167
Time restricted gifts	<u>235,924</u>	<u>773,968</u>
 Total subject to the passage of time or expenditure for specified purpose	 16,007,047	 21,506,467
 Split interest agreement (Note 6)	 845,433	 806,776
 Endowment corpus	 <u>30,718,995</u>	 <u>30,216,207</u>
 Total Net Assets With Donor Restrictions	 <u><u>\$ 47,571,475</u></u>	 <u><u>\$ 52,529,450</u></u>

Net assets with donor restrictions subject to expenditures for specified purposes include accumulated earnings on donor restricted endowment corpus.

Note 9 - Endowment

The Foundation's endowments consist of twenty-seven funds established to support a variety of areas of the Library. Its endowments include twenty-five donor restricted endowment funds and two funds designated by the Board of Directors to function as endowments (quasi-endowments). As required by U.S. GAAP, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements For the Years Ended December 31, 2018 and 2017

Note 9 - Continued

Interpretation of Relevant Law - The Foundation operates in accordance with the Washington State Prudent Management of Institutional Funds Act (PMIFA). The Board of Directors of the Foundation has reviewed PMIFA and, having considered its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, 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, when reviewing its donor-restricted endowment funds, the Foundation considers the value of a fund to be deficient if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations of the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted PMIFA to permit spending from deficient funds in accordance with prudent measures required under the law.

In accordance with PMIFA, the 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 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 Foundation; and
- The investment policies of the Foundation.

Funds With Deficiencies - 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 PMIFA requires the Foundation to retain as a fund of perpetual duration. As of December 31, 2018, three endowment funds had such deficiencies. The fair value of the three endowment funds totaled \$353,543, and their corpus totaled \$361,096, leaving a total deficit of \$7,554. There were no endowment funds with deficiencies as of December 31, 2017.

Return Objectives and Risk Parameters - The Foundation has adopted investment and spending policies for both donor-restricted endowment assets and quasi-endowment assets designed to provide reasonable spending in support of the Library while maintaining the purchasing power of the endowments over the long term. To achieve these objectives, endowment assets are invested in a well-diversified, balanced portfolio intended to capture the broad market return. As a result, the portfolio assumes moderate investment risk consistent with the broad market.

Strategies Employed for Achieving Objectives - The Foundation utilizes a total return strategy, with investment returns achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Because the Foundation seeks to balance current spending with maintenance of purchasing power over the long term, the asset allocation of the portfolio favors equity investments, but within an overall balanced portfolio.

Spending Policy and How the Investment Objectives Relate to Spending Policy - The Foundation has a policy of appropriating for distribution each year up to 4.25% of the endowment fund's average fair value over the prior twelve quarters. This is calculated as of June 30 preceding the calendar year in which the distribution is planned. The spending rate was established in conjunction with the endowment's target asset allocation and its long term expected investment return to achieve the endowment's investment objectives, and is reviewed annually for appropriateness given anticipated spending, market conditions, and other impacting factors considered by Foundation management and the Board.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements
For the Years Ended December 31, 2018 and 2017

Note 9 - Continued

Endowment net assets consist of the following as of December 31:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions		2018 Total
		Accumulated Earnings	Endowment Corpus	
Donor-restricted endowment funds-				
Endowments for collections and resources	\$ -	\$ 9,340,892	\$ 17,364,515	\$ 26,705,407
Endowments for library programs		4,506,123	12,540,347	17,046,470
General endowments		128,824	814,133	942,957
Total donor-restricted endowments		13,975,839	30,718,995	44,694,834
Board-designated quasi-endowment funds-				
The Seattle Room and Center for Local History	618,661			618,661
General board-designated quasi-endowments	6,737,334			6,737,334
Total board-designated endowments	7,355,995			7,355,995
Total Endowment Funds, December 31, 2018	\$ 7,355,995	\$ 13,975,839	\$ 30,718,995	\$ 52,050,829
	Net Assets Without Donor Restriction	Net Assets With Donor Restrictions		2017 Total
		Accumulated Earnings	Endowment Corpus	
Donor-restricted endowment funds-				
Endowments for collections and resources	\$ -	\$ 12,123,607	\$ 17,333,514	\$ 29,457,121
Endowments for library programs		6,157,597	12,369,926	18,527,523
General endowments		194,968	512,767	707,735
Total donor-restricted endowments		18,476,172	30,216,207	48,692,379
Board-designated quasi-endowment funds-				
The Seattle Room and Center for Local History	682,900			682,900
General board-designated quasi-endowments	7,436,084			7,436,084
Total board-designated endowments	8,118,984			8,118,984
Total Endowment Funds, December 31, 2017	\$ 8,118,984	\$ 18,476,172	\$ 30,216,207	\$ 56,811,363

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements
For the Years Ended December 31, 2018 and 2017

Note 9 - Continued

Endowment net assets include both funds on hand and outstanding pledges receivable as follows as of December 31:

	<u>2018</u>	<u>2017</u>
Endowment funds	\$ 30,710,174	\$ 30,119,871
Endowment pledges receivable	<u>8,821</u>	<u>96,336</u>
Total Endowment Net Assets	<u>\$ 30,718,995</u>	<u>\$ 30,216,207</u>

Changes to endowment net assets are as follows for the year ended December 31:

	<u>Net Assets Without Donor Restriction</u>	<u>Net Assets With Donor Restriction</u>		
		<u>Accumulated Earnings</u>	<u>Endowment Corpus</u>	<u>Total</u>
Endowment net assets, January 1, 2017	\$ 7,272,381	\$ 13,273,763	\$ 30,064,166	\$ 50,610,310
Endowment investment return, net	1,153,103	6,843,124		7,996,227
Contributions			152,041	152,041
Appropriation of endowment for expenditure	<u>(306,500)</u>	<u>(1,640,715)</u>		<u>(1,947,215)</u>
Endowment Net Assets, December 31, 2017	8,118,984	18,476,172	30,216,207	56,811,363
Endowment investment return, net	(453,489)	(2,825,666)		(3,279,155)
Contributions			502,788	502,788
Appropriation of endowment for expenditure	<u>(309,500)</u>	<u>(1,674,667)</u>		<u>(1,984,167)</u>
Endowment Net Assets, December 31, 2018	<u>\$ 7,355,995</u>	<u>\$ 13,975,839</u>	<u>\$ 30,718,995</u>	<u>\$ 52,050,829</u>

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements For the Years Ended December 31, 2018 and 2017

Note 10 - Donated Goods and Services

Donated goods and services (in-kind) consisted of the following for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Print and radio	\$ 303,311	\$ 309,708
Museum pass program	96,423	3,115
Book and map collections	92,080	179,000
Video and photography production	10,700	20,000
Lodging	4,152	1,316
Supplies	1,291	7,381
Total Donated Goods and Services	<u>\$ 507,957</u>	<u>\$ 520,520</u>

The City of Seattle owns the Central Library. The Foundation occupies a portion of the Central Library office space rent free. The estimated fair value of the donated facilities is immaterial for the years ended December 31, 2018 and 2017, respectively, and is not reflected in the statements of activities and changes in net assets.

Various museums in the greater Seattle area donate museum admission passes to the Library for use by its patrons free of charge. Under this program, individuals holding a valid library card may request and obtain a museum admission pass by requesting it through the Library website. Upon request, the museum donates the pass to the Library, and the Library issues the pass to the individual. At the time the pass is issued, the Foundation recognizes in-kind revenue and expense for the estimated fair value of the admission. The fair value is determined based on the average admission price published on each of the museum's websites discounted by 50% as an estimate of passes issued but not used. Consistent with the charter of the Foundation and the Master Agreement (Note 12), all contributions are recognized by the Foundation, unless specifically designated by the donor as not intended for the Foundation.

In-kind contributions not entirely granted to the Library in a given year are recorded as contributions with donor restrictions to be used for future grants or as management and general, and fundraising expenses. In-kind expenses totaled \$497,957 and \$519,021 for the years ended December 31, 2018 and 2017, respectively.

Note 11 - Liquidity and Availability of Financial Assets

Liquidity - As part of the Foundation's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due within the coming year. The Foundation generally maintains a cash balance of at least \$2.2 million. In addition, as part of its liquidity management, the Foundation invests cash in excess of daily requirements in various short-term investments, including money market accounts, highly liquid investments purchased with an original maturity of three months or less, and other highly liquid short-term investments maturing generally in twelve months or less.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements For the Years Ended December 31, 2018 and 2017

Note 11 - Continued

Availability of Financial Assets - Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, consist of the following as of December 31, 2018:

Cash and cash equivalents	\$ 2,987,097
Promises to give, net	10,280
Investments	60,579,526
Distributions from beneficial interests in assets held by others expected within one year	<u>11,210</u>
Total financial assets, excluding split interest agreements and beneficial interest in assets held by others	63,588,113
Less:	
Board-designated endowment funds	(7,355,995)
Donor-restricted endowment funds	(44,694,834)
Add back endowment spending rate distributions and appropriations	24,100
Donor-restricted for specific programs or time	<u>(2,031,208)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 9,530,176</u>

Cash and cash equivalents consist of checking accounts, money market accounts, and highly liquid investments purchased with an original maturity of three months or less. Investments are held in publicly traded securities that are convertible to cash in the normal market trading cycle.

The Foundation also has a beneficial interest in assets held by Seattle Foundation. Because these assets are held and managed by third parties, the Foundation's beneficial interest in the assets is not included in the table above. However, the contractual payments expected to be received from the Seattle Foundation within the next year has been included as a financial asset.

The Foundation's endowments consist of donor-restricted endowments and funds designated by the Foundation's Board of Directors as quasi-endowments. All endowments are subject to the Foundation's current annual spending rate of 4.25% as described in Note 9. Income and the related distribution from the general endowment is available for general expenditures. The Board-designated quasi-endowment could be made available if necessary; however, there are no current plans to spend other than amounts appropriated for general expenditure as part of the annual Board approval and appropriation.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements For the Years Ended December 31, 2018 and 2017

Note 12 - Master Agreement

Since its founding in 1980, the relationship between the Foundation and the Library has been consistently mutually productive and successful in fulfilling both organizations' missions. However, that relationship had not been previously documented in a formal manner and both organizations considered it best practice, given the growth over the years and the magnitude of the financial impact, to formally document the relationship. Effective October 11, 2016, the Foundation and the Library entered into a Master Agreement (the Agreement) that defines the relationship between the two separate organizations. In so doing, several administrative operations functions were impacted as a result of the formalization work, including formalizing a lease (discussed further below), and literally establishing a direct employment relationship between the Foundation and its staff, all of whom had been employed previously by the Library with the Foundation reimbursing the Library for all employment-related costs prior to the Agreement being established. In addition, the Agreement included implementation of the Foundation's own employee benefit plan(s), as well as office infrastructure systems and processes including payroll, telephones, email, and others, to allow for essentially independent operations from the Library to appropriately reflect the two legally separate organizations.

The initial term of the Agreement is twenty-five years, and the Agreement automatically extends for additional consecutive periods of ten years. Under the provisions of the Agreement, both the initial term and consecutive extended terms may be terminated by either the Foundation or the Library by written notice given to the other party not later than twelve months prior to the then-current termination date.

The Agreement includes a three-year lease beginning January 1, 2017 and ending December 31, 2019. After the initial term, the lease automatically renews for consecutive periods of five years up to a twenty-five year period, including the initial term of the lease. Either the Foundation or the Library may terminate this lease by giving the other party written notice not less than twelve months in advance of the next upcoming renewal term.

Note 13 - Retirement Plan

The Foundation entered into a Professional Employer Organization (PEO) relationship effective December 2016. Included in the PEO relationship is the option to participate in the PEO's 401(k) employee benefit retirement plan (the Plan) covering all employees who meet the eligibility requirements of working a minimum of 30 hours per week. Participating employees may make voluntary contributions up to the maximum allowed by law, and the Foundation makes matching contributions of 50% of the employee's contributions up to a maximum match of 3%. In addition, the Foundation contributes 3% per employee under the Safe Harbor rules that apply to 401(k) plans. Both the matching contributions and the Safe Harbor contributions, along with the employee's contributions, vest immediately to the employees. The Foundation's matching and Safe Harbor contributions totaled \$33,392 and \$30,602 for the years ended December 31, 2018 and 2017.