



The Seattle Public Library Foundation

Financial Statements

For the Years Ended December 31, 2017 and 2016

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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, 2017 and 2016, and the related statements of activities and changes in net assets 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, 2017 and 2016, 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.

*Clark Nuber PS*

Certified Public Accountants

May 2, 2018

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Statements of Financial Position  
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 4,281,753	\$ 5,370,100
Promises to give, net	144,241	832,506
Prepaid expenses and other assets	13,966	13,312
Investments	64,947,247	57,114,491
Split interest agreements	644,276	669,128
Beneficial interest in assets held by Seattle Foundation	3,491,729	3,109,398
Equipment, net	1,112	950
<b>Total Assets</b>	<b><u>\$ 73,524,324</u></b>	<b><u>\$ 67,109,885</u></b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 269,836	\$ 395,157
Grants payable to The Seattle Public Library	1,051,885	1,200,550
<b>Total Liabilities</b>	<b>1,321,721</b>	<b>1,595,707</b>
<b>Net Assets:</b>		
Unrestricted	19,673,153	17,943,418
Temporarily restricted	21,506,467	16,739,966
Permanently restricted	31,022,983	30,830,794
<b>Total Net Assets</b>	<b><u>72,202,603</u></b>	<b><u>65,514,178</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 73,524,324</u></b>	<b><u>\$ 67,109,885</u></b>

See accompanying notes.

**THE SEATTLE PUBLIC LIBRARY FOUNDATION**

**Statements of Activities and Changes in Net Assets  
For the Years Ended December 31, 2017 and 2016**

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and Revenue:</b>								
Contributions	\$ 1,500,994	\$ 993,457	\$ 152,041	\$ 2,646,492	\$ 1,188,068	\$ 1,582,025	\$ 1,936,136	\$ 4,706,229
In-kind contributions	3,453	517,067		520,520		6,968,740		6,968,740
Investment earnings	2,611,375	6,843,124	40,148	9,494,647	1,336,393	2,759,851	41,554	4,137,798
<b>Total Support and Revenue Before Net Assets Released From Restrictions</b>	<b>4,115,822</b>	<b>8,353,648</b>	<b>192,189</b>	<b>12,661,659</b>	<b>2,524,461</b>	<b>11,310,616</b>	<b>1,977,690</b>	<b>15,812,767</b>
<b>Net Assets Released From Restrictions:</b>								
Satisfaction of purpose restrictions	3,087,147	(3,087,147)			9,695,509	(9,695,509)		
Satisfaction of time restrictions	500,000	(500,000)			503,000	(503,000)		
<b>Total Support and Revenue</b>	<b>7,702,969</b>	<b>4,766,501</b>	<b>192,189</b>	<b>12,661,659</b>	<b>12,722,970</b>	<b>1,112,107</b>	<b>1,977,690</b>	<b>15,812,767</b>
<b>Expenses:</b>								
Grants made to The Seattle Public Library-								
Collections and resources	1,375,731			1,375,731	1,371,366			1,371,366
Collections and resources - In-kind	94,000			94,000	2,121,000			2,121,000
Library programs and marketing	2,203,525			2,203,525	2,556,687			2,556,687
Library programs and marketing - In-kind	421,567			421,567	252,541			252,541
Capital improvements	430,052			430,052	355,718			355,718
Capital improvements - In-kind					4,595,199			4,595,199
Other	359,580			359,580	373,516			373,516
Other - In-kind	3,454			3,454				
<b>Total Program Expenses</b>	<b>4,887,909</b>			<b>4,887,909</b>	<b>11,626,027</b>			<b>11,626,027</b>
Management and general	666,492			666,492	698,544			698,544
Fundraising	418,833			418,833	401,629			401,629
<b>Total Expenses</b>	<b>5,973,234</b>			<b>5,973,234</b>	<b>12,726,200</b>			<b>12,726,200</b>
<b>Change in Net Assets</b>	<b>1,729,735</b>	<b>4,766,501</b>	<b>192,189</b>	<b>6,688,425</b>	<b>(3,230)</b>	<b>1,112,107</b>	<b>1,977,690</b>	<b>3,086,567</b>
Net assets, beginning of year	17,943,418	16,739,966	30,830,794	65,514,178	17,946,648	15,627,859	28,853,104	62,427,611
<b>Net Assets, End of Year</b>	<b>\$ 19,673,153</b>	<b>\$ 21,506,467</b>	<b>\$ 31,022,983</b>	<b>\$ 72,202,603</b>	<b>\$ 17,943,418</b>	<b>\$ 16,739,966</b>	<b>\$ 30,830,794</b>	<b>\$ 65,514,178</b>

See accompanying notes.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Statements of Cash Flows  
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Operating Activities:</b>		
Cash received from-		
Donors	\$ 2,921,036	\$ 2,502,827
Investments	1,295,855	1,367,287
Cash paid for-		
The Seattle Public Library grants	(4,517,555)	(5,434,830)
Services and supplies, including general and administrative expenses paid to The Seattle Public Library	<u>(1,211,300)</u>	<u>(1,032,306)</u>
<b>Net Cash Used in Operating Activities</b>	<b>(1,511,964)</b>	<b>(2,597,022)</b>
<b>Investing Activities:</b>		
Purchase of investments	(7,219,161)	(10,795,934)
Proceeds from sale of investments	7,154,042	13,809,762
Purchase of equipment	<u>(935)</u>	
<b>Net Cash (Used) Provided by Investing Activities</b>	<b>(66,054)</b>	<b>3,013,828</b>
<b>Financing Activities:</b>		
Proceeds from split interest agreements	65,000	65,000
Cash received for endowment contributions	<u>424,671</u>	<u>1,569,527</u>
<b>Net Cash Provided by Financing Activities</b>	<b>489,671</b>	<b>1,634,527</b>
<b>Change in Cash and Cash Equivalents</b>	<b>(1,088,347)</b>	<b>2,051,333</b>
Cash and cash equivalents, beginning of year	<u>5,370,100</u>	<u>3,318,767</u>
<b>Cash and Cash Equivalents, End of Year</b>	<b><u>\$ 4,281,753</u></b>	<b><u>\$ 5,370,100</u></b>

See accompanying notes.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Statements of Cash Flows (Continued)  
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Operating Activities:</b>		
Change in net assets	\$ 6,688,425	\$ 3,086,567
Adjustments to reconcile change in net assets to net cash used in operating activities-		
Noncash changes:		
Realized and unrealized gain on investments	(7,655,486)	(2,530,098)
Change in value of beneficial interest in assets held by Seattle Foundation	(494,482)	(191,751)
Change in value of split interest agreement	(40,148)	(41,554)
Depreciation	773	1,027
In-kind contributions	(520,520)	(6,968,740)
In-kind contributions to The Seattle Public Library	519,021	6,968,740
Other noncash expense	1,499	
Contributions received for endowment	(152,041)	(2,138,970)
Changes in assets and liabilities:		
Promises to give, net	415,635	(72,567)
Prepaid expenses and other assets	(654)	2,419
Accounts payable and accrued liabilities	(125,321)	65,448
Grants payable to The Seattle Public Library	(148,665)	(777,543)
<b>Net Cash Used in Operating Activities</b>	<b><u>\$ (1,511,964)</u></b>	<b><u>\$ (2,597,022)</u></b>

See accompanying notes.



## THE SEATTLE PUBLIC LIBRARY FOUNDATION

### Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

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#### 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 \$165 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's financial statements have been prepared on the accrual basis of accounting. The Foundation classifies net assets, revenues, gains, and losses based on the existence or absence of donor-imposed restrictions. Net assets are classified as unrestricted, temporarily restricted, and permanently restricted.

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category include unrestricted contributions, investment earnings that are not donor-restricted, expenses associated with grants made to the Library, and the operating activities of the Foundation. The Board has also established a Board-designated endowment (quasi-endowment) which is included in this category.

Temporarily Restricted Net Assets - Net assets restricted by donors to be used for certain purposes or for future periods.

Permanently Restricted Net Assets - Endowment gifts with donor-imposed restrictions that the corpus be maintained permanently by the Foundation.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary 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, 2017 and 2016

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#### 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. Conditional promises to give totaled approximately \$45,000 as of December 31, 2017. There were no conditional promises to give as of December 31, 2016.

**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, 2017 and 2016, approximately 89% and 85%, respectively, of the Foundation's investment portfolio was invested in four exchange traded funds and mutual funds.

Contribution revenue received from one donor for the year ended December 31, 2017 accounted for approximately 14% of contribution revenues, and contributions from two donors for the year ended December 31, 2016 accounted for approximately 57% of contribution revenues. Promises to give from four donors accounted for 64% of the outstanding balance as of December 31, 2017, and promises to give from two donors accounted for 68% of the outstanding balance as of December 31, 2016.

**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 \$4,957 and \$4,184 as of December 31, 2017 and 2016, 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 and is partially determined by the Foundation's endowment spending policy (Note 10). 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, 2017 and 2016

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#### Note 1 - Continued

**Donated Facilities, Goods and Services** - 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, 2017 and 2016, respectively, and is not reflected in the statements of activities and changes in net assets.

Noncash (in-kind) contributions are recorded at fair value at the date the contribution is received. For the years ended December 31, 2017 and 2016, in-kind contributions totaling \$520,520 and \$6,968,740, respectively, consisted of software, a book collection, and publication marketing and promotion of Library programs. Of the total in-kind contributions available, \$519,021 and \$6,968,740 was granted to the Library and recorded as program expense for the years ended December 31, 2017 and 2016, respectively. Any in-kind contributions not entirely granted to the Library in a given year are recorded as time-restricted contributions for future grants or as management and general, and fundraising expenses.

**Fair Value Measurements and Valuation Techniques** - In accordance with generally accepted accounting principles in the United States of America (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 Foundation's various expenses have been summarized on a functional basis in the statements of activities and changes in net assets. Certain costs have been allocated between the programs, management and general, and fundraising expenses based generally on the resources used by each function.

**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.

**Subsequent Events** - The Foundation has evaluated subsequent events through May 2, 2018, the date on which the financial statements were available to be issued.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements  
For the Years Ended December 31, 2017 and 2016

**Note 2 - Promises to Give**

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

	<u>2017</u>	<u>2016</u>
Promises to give expected in less than one year	\$ 37,405	\$ 741,011
Promises to give expected in one to five years	<u>132,406</u>	<u>122,655</u>
	169,811	863,666
Allowance for uncollectible promises to give	(25,000)	(25,000)
Present value discount (0.27% to 0.35%)	<u>(570)</u>	<u>(6,160)</u>
<b>Promises to Give, Net</b>	<b><u>\$ 144,241</u></b>	<b><u>\$ 832,506</u></b>

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

	<u>2017</u>	<u>2016</u>
Allowance, beginning of year	\$ 25,000	\$ 25,000
Write-off of uncollectible promises to give	(9,450)	(8,135)
Change in provision for uncollectible promises to give	<u>9,450</u>	<u>8,135</u>
<b>Allowance, End of Year</b>	<b><u>\$ 25,000</u></b>	<b><u>\$ 25,000</u></b>

**Note 3 - Investments**

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

	<u>2017</u>	<u>2016</u>
Investments	\$ 64,947,247	\$ 57,114,491
Beneficial interest in assets held by Seattle Foundation	3,491,729	3,109,398
Split interest agreements	<u>644,276</u>	<u>669,128</u>
<b>Total Investments</b>	<b><u>\$ 69,083,252</u></b>	<b><u>\$ 60,893,017</u></b>

**THE SEATTLE PUBLIC LIBRARY FOUNDATION**

**Notes to Financial Statements  
For the Years Ended December 31, 2017 and 2016**

**Note 3 - Continued**

Investment earnings are reported in the statements of activities and changes in net assets and consist of the following for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 1,409,019	\$ 1,486,218
Realized gain	597,860	706,195
Unrealized gain	7,057,626	1,823,903
Change in value of beneficial interest in Seattle Foundation	494,482	191,751
Change in value of split interest agreement	40,148	41,554
Investment fees and expenses	<u>(104,488)</u>	<u>(111,823)</u>
<b>Investment Earnings, Net</b>	<b><u>\$ 9,494,647</u></b>	<b><u>\$ 4,137,798</u></b>

**Note 4 - Fair Value Measurements**

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

	<u>Fair Value Measurements as of December 31, 2017</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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)	<u>9,808,720</u>			<u>9,808,720</u>
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			<u>644,276</u>	<u>644,276</u>
<b>Investments Reported at Fair Value</b>	<b><u>\$ 64,947,247</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 4,136,005</u></b>	<b><u>\$ 69,083,252</u></b>

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements  
For the Years Ended December 31, 2017 and 2016

Note 4 - Continued

	Fair Value Measurements as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Exchange traded index and mutual funds-				
Vanguard Total Stock Market ETF (U.S. Equities)	\$ 24,508,038	\$ -	\$ -	\$ 24,508,038
Vanguard All World ex-U.S ETF (Non-U.S. Equities)	12,122,550			12,122,550
Vanguard Total Bond Market ETF (U.S. Bonds)	4,657,269			4,657,269
Metropolitan West Total Return Bond I (U.S. Bonds)	6,746,482			6,746,482
PIMCO Total Return Fund (Flexible Bond Fund)	8,786,971			8,786,971
Total exchange traded index and mutual funds	56,821,310			56,821,310
Cash and money market funds held for investment	293,181			293,181
Beneficial interest in assets held by Seattle Foundation			3,109,398	3,109,398
Split interest agreement			669,128	669,128
<b>Investments Reported at Fair Value</b>	<b>\$ 57,114,491</b>	<b>\$ -</b>	<b>\$ 3,778,526</b>	<b>\$ 60,893,017</b>

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis. There have been no changes in the methodologies used as of December 31, 2017 and 2016.

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, 2017 and 2016**

**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, 2016	\$ 3,027,398	\$ 692,574	\$ 3,719,972
Change in value included in the change in net assets	191,751	41,554	233,305
Distributions received	<u>(109,751)</u>	<u>(65,000)</u>	<u>(174,751)</u>
<b>Fair Value, December 31, 2016</b>	<b>3,109,398</b>	<b>669,128</b>	<b>3,778,526</b>
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>
<b>Fair Value, December 31, 2017</b>	<b><u>\$ 3,491,729</u></b>	<b><u>\$ 644,276</u></b>	<b><u>\$ 4,136,005</u></b>

**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, are 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, 2017 and 2016**

**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, 2017 and 2016, 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 \$40,148 and \$41,554 for the years ended December 31, 2017 and 2016, respectively. The Foundation's outstanding interest in the trust, at net present value, totals \$644,276 and \$669,128 as of December 31, 2017 and 2016, 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 \$806,776 and \$766,628 as of December 31, 2017 and 2016 (Note 9).

**Note 7 - Unrestricted Net Assets**

Unrestricted net assets are available for the following purposes as of December 31:

	<u>2017</u>	<u>2016</u>
Undesignated	\$ 11,554,169	\$ 10,671,037
Board designated-		
General quasi-endowment	5,000,000	5,000,000
The Seattle Room and Center for Local History	600,000	600,000
Accumulated earnings on quasi-endowments	<u>2,518,984</u>	<u>1,672,381</u>
Total board-designated	<u>8,118,984</u>	<u>7,272,381</u>
<b>Total Unrestricted Net Assets</b>	<b><u>\$ 19,673,153</u></b>	<b><u>\$ 17,943,418</u></b>

**Note 8 - Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes as of December 31:

	<u>2017</u>	<u>2016</u>
Collections and resources	\$ 12,701,643	\$ 9,704,943
Library programs	7,787,689	5,776,468
Capital improvements	243,167	140,198
Time restricted gifts	<u>773,968</u>	<u>1,118,357</u>
<b>Total Temporarily Restricted Net Assets</b>	<b><u>\$ 21,506,467</u></b>	<b><u>\$ 16,739,966</u></b>



## THE SEATTLE PUBLIC LIBRARY FOUNDATION

### Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

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#### Note 9 - Permanently Restricted Net Assets

Permanently restricted net assets consist of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Permanently restricted endowment funds	\$ 30,216,207	\$ 30,064,166
Permanently restricted split interest agreement (Note 6)	<u>806,776</u>	<u>766,628</u>
<b>Total Permanently Restricted Net Assets</b>	<b><u>\$ 31,022,983</u></b>	<b><u>\$ 30,830,794</u></b>

#### Note 10 - Endowment

The Foundation's endowments consist of twenty-five funds (23 donor restricted and 2 quasi endowments) established to support a variety of areas of the Library. Its endowments include both donor-restricted endowment funds and funds designated by the Board 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.

**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 determination, the Foundation classifies as permanently restricted net assets the original value of gifts to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. 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 PMIFA.

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. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no material deficiencies as of December 31, 2017 and 2016.

**THE SEATTLE PUBLIC LIBRARY FOUNDATION**

**Notes to Financial Statements  
For the Years Ended December 31, 2017 and 2016**

**Note 10 - Continued**

**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.

Endowment net assets consist of the following as of December 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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
<b>Total Endowment Funds, December 31, 2017</b>	<b>\$ 8,118,984</b>	<b>\$ 18,476,172</b>	<b>\$ 30,216,207</b>	<b>\$ 56,811,363</b>

**THE SEATTLE PUBLIC LIBRARY FOUNDATION**

**Notes to Financial Statements  
For the Years Ended December 31, 2017 and 2016**

**Note 10 - Continued**

Endowment net assets consist of the following as of December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds-				
Endowments for collections and resources	\$ -	\$ 9,055,245	\$ 17,307,263	\$ 26,362,508
Endowments for library programs		4,100,161	12,244,136	16,344,297
General endowments		118,357	512,767	631,124
Total donor-restricted endowments		13,273,763	30,064,166	43,337,929
Board-designated quasi-endowment funds-				
The Seattle Room and Center for Local History	611,710			611,710
General board-designated quasi-endowments	6,660,671			6,660,671
Total board-designated endowments	7,272,381			7,272,381
<b>Total Endowment Funds, December 31, 2016</b>	<b><u>\$ 7,272,381</u></b>	<b><u>\$ 13,273,763</u></b>	<b><u>\$ 30,064,166</u></b>	<b><u>\$ 50,610,310</u></b>

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

	<u>2017</u>	<u>2016</u>
Permanently restricted endowment funds	\$ 30,119,871	\$ 29,695,324
Permanently restricted endowment pledges receivable	96,336	368,842
<b>Total Endowment Net Assets</b>	<b><u>\$ 30,216,207</u></b>	<b><u>\$ 30,064,166</u></b>

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements  
For the Years Ended December 31, 2017 and 2016

Note 10 - Continued

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2016	\$ 7,075,686	\$ 12,092,878	\$ 28,128,030	\$ 47,296,594
Endowment investment earnings-				
Interest and dividends	172,126	931,085		1,103,211
Realized and unrealized losses	<u>325,169</u>	<u>1,828,766</u>		<u>2,153,935</u>
Total endowment investment losses	497,295	2,759,851		3,257,146
Contributions			1,936,136	1,936,136
Appropriation of endowment for expenditure	<u>(300,600)</u>	<u>(1,578,966)</u>		<u>(1,879,566)</u>
<b>Endowment Net Assets, December 31, 2016</b>	<b>7,272,381</b>	<b>13,273,763</b>	<b>30,064,166</b>	<b>50,610,310</b>
Endowment investment earnings and losses-				
Interest and dividends	158,999	889,270		1,048,269
Realized and unrealized gains	<u>994,104</u>	<u>5,953,854</u>		<u>6,947,958</u>
Total endowment investment earnings	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>
<b>Endowment Net Assets, December 31, 2017</b>	<b><u>\$ 8,118,984</u></b>	<b><u>\$ 18,476,172</u></b>	<b><u>\$ 30,216,207</u></b>	<b><u>\$ 56,811,363</u></b>

## THE SEATTLE PUBLIC LIBRARY FOUNDATION

### Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

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#### Note 11 - 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 12 - 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 \$30,602 and \$5,033 for the years ended December 31, 2017 and 2016.