



The Seattle Public Library Foundation

Financial Statements

For the Years Ended December 31, 2022 and 2021

Table of Contents

	Page
Independent Auditor's Report	1 - 2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Functional Expenses	5 - 6
Statements of Cash Flows	7 - 8
Notes to Financial Statements	9 - 24

Independent Auditor's Report

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

Opinion

We have audited the financial statements of The Seattle Public Library Foundation (the Foundation), which comprise the statements of financial position as of December 31, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2022 and 2021, and changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.



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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Clark Nuber P.C.

Certified Public Accountants
May 4, 2023

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Statements of Financial Position
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Cash and cash equivalents	\$ 2,110,141	\$ 3,710,313
Promises to give, net	276,113	221,616
Other receivables	127,515	120,277
Prepaid expenses and other assets	8,961	11,389
Investments	75,216,314	87,616,130
Split interest agreement	495,776	529,034
Beneficial interest in assets held by Seattle Foundation	3,379,330	4,215,487
Equipment, net	17,517	7,564
Total Assets	<u>\$ 81,631,667</u>	<u>\$ 96,431,810</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 297,143	\$ 240,476
Grants payable to The Seattle Public Library	1,332,203	1,675,696
Total Liabilities	1,629,346	1,916,172
Net Assets:		
Without donor restrictions	25,755,686	28,966,680
With donor restrictions	54,246,635	65,548,958
Total Net Assets	<u>80,002,321</u>	<u>94,515,638</u>
Total Liabilities and Net Assets	<u>\$ 81,631,667</u>	<u>\$ 96,431,810</u>

See accompanying notes.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

**Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2022 and 2021**

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:						
Contributions and grants	\$ 3,558,466	\$ 1,262,252	\$ 4,820,718	\$ 3,174,116	\$ 2,377,727	\$ 5,551,843
In-kind contributions	8,407	446,759	455,166	8,604	223,165	231,769
Investment return, net	(3,888,749)	(9,410,824)	(13,299,573)	2,514,455	6,453,888	8,968,343
Total Support and Revenue						
Before Net Assets Released From Restrictions	(321,876)	(7,701,813)	(8,023,689)	5,697,175	9,054,780	14,751,955
Net Assets Released From Restrictions:						
Satisfaction of purpose restrictions	3,568,551	(3,568,551)		3,143,325	(3,143,325)	
Satisfaction of time restrictions	31,959	(31,959)		28,100	(28,100)	
Total Support and Revenue	3,278,634	(11,302,323)	(8,023,689)	8,868,600	5,883,355	14,751,955
Expenses:						
Grants made to The Seattle Public Library-						
Collections and resources	1,721,733		1,721,733	1,904,535		1,904,535
Library programs and marketing	2,094,898		2,094,898	2,201,043		2,201,043
Library programs and marketing - In-kind	444,240		444,240	223,165		223,165
Capital improvements	349,814		349,814	259,198		259,198
Other	547,340		547,340	362,299		362,299
Collections and resources - In-kind	2,520		2,520			
Other - In-kind	3,588		3,588			
Total Program Expenses	5,164,133		5,164,133	4,950,240		4,950,240
Management and general	792,111		792,111	621,095		621,095
Fundraising	533,384		533,384	459,946		459,946
Total Expenses	6,489,628		6,489,628	6,031,281		6,031,281
Change in Net Assets	(3,210,994)	(11,302,323)	(14,513,317)	2,837,319	5,883,355	8,720,674
Net assets, beginning of year	28,966,680	65,548,958	94,515,638	26,129,361	59,665,603	85,794,964
Net Assets, End of Year	\$ 25,755,686	\$ 54,246,635	\$ 80,002,321	\$ 28,966,680	\$ 65,548,958	\$ 94,515,638

See accompanying notes.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

**Statement of Functional Expenses
For the Year Ended December 31, 2022**

	Program	Management and General	Fundraising	Total
Grants to The Seattle Public Library	\$ 4,633,110	\$ -	\$ -	\$ 4,633,110
Salaries and benefits	464,986	560,719	341,902	1,367,607
Other	72	79,833	7,070	86,975
IT services	27,135	32,721	19,952	79,808
Professional services	23,643	36,153	14,735	74,531
Bank fees		230	60,725	60,955
Printing	4,728	5,734	34,957	45,419
Cultivation and stewardship	1,972	8,767	19,921	30,660
Accounting fees		30,060		30,060
Postage	1,622	5,689	13,000	20,311
Supplies	315	3,404	15,255	18,974
Insurance		17,805		17,805
Staff development	3,236	2,176	65	5,477
Bad debt			4,492	4,492
Depreciation	13	4,169	8	4,190
Transportation	788	2,324	702	3,814
Memberships and sponsorships	2,513	309		2,822
Equipment		1,418		1,418
Telephone		600	600	1,200
Total Functional Expenses	<u>\$ 5,164,133</u>	<u>\$ 792,111</u>	<u>\$ 533,384</u>	<u>\$ 6,489,628</u>

See accompanying notes.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

**Statement of Functional Expenses
For the Year Ended December 31, 2021**

	Program	Management and General	Fundraising	Total
Grants to The Seattle Public Library	\$ 4,478,782	\$ -	\$ -	\$ 4,478,782
Salaries and benefits	386,041	467,244	250,075	1,103,360
Professional services	41,764	26,699	13,159	81,622
Bank fees		2,380	74,522	76,902
IT services	21,860	33,817	16,334	72,011
Printing	9,706	9,890	44,599	64,195
Other	2,419	14,370	22,519	39,308
Postage	7,620	6,083	14,541	28,244
Accounting fees		27,600		27,600
Insurance		14,519		14,519
Cultivation and stewardship	1,653	6,570	6,082	14,305
Supplies	251	2,643	9,000	11,894
Bad debt			8,234	8,234
Depreciation		4,181		4,181
Staff development		2,001	161	2,162
Equipment		1,923		1,923
Telephone		575	575	1,150
Memberships and sponsorships	144	494		638
Transportation		106	145	251
Total Functional Expenses	<u>\$ 4,950,240</u>	<u>\$ 621,095</u>	<u>\$ 459,946</u>	<u>\$ 6,031,281</u>

See accompanying notes.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating Activities:		
Cash received from-		
Donors	\$ 4,208,757	\$ 4,246,181
Investments	1,356,375	1,309,908
Cash paid for-		
The Seattle Public Library grants	(4,954,178)	(5,395,310)
Services and supplies, including general and administrative expenses paid to The Seattle Public Library	<u>(1,385,254)</u>	<u>(1,149,921)</u>
Net Cash Used in Operating Activities	(774,300)	(989,142)
Investing Activities:		
Purchase of investments	(28,404,105)	(26,653,275)
Proceeds from sale of investments	26,965,420	26,770,173
Purchase of equipment	<u>(14,143)</u>	<u>(1,535)</u>
Net Cash (Used in) Provided by Investing Activities	(1,452,828)	115,363
Financing Activities:		
Proceeds from split interest agreements	65,000	65,000
Cash received for endowment contributions	<u>561,956</u>	<u>1,178,195</u>
Net Cash Provided by Financing Activities	626,956	1,243,195
Change in Cash and Cash Equivalents	(1,600,172)	369,416
Cash and cash equivalents, beginning of year	<u>3,710,313</u>	<u>3,340,897</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,110,141</u>	<u>\$ 3,710,313</u>

See accompanying notes.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Statements of Cash Flows (Continued)
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating Activities:		
Change in net assets	\$ (14,513,317)	\$ 8,720,674
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Noncash changes:		
Realized and unrealized loss (gain) on investments	13,986,959	(7,078,914)
Change in value of beneficial interest in assets held by Seattle Foundation	687,699	(538,032)
Change in value of split interest agreement	(31,742)	(33,625)
Change in present value discount on pledges	38,620	(66,330)
Depreciation	4,190	4,181
In-kind contributions	(455,166)	(231,769)
In-kind contributions to The Seattle Public Library	450,348	223,165
Other noncash contribution changes	4,818	8,604
Contributions received for endowment	(561,956)	(1,178,195)
Changes in assets and liabilities:		
Promises to give, net	(93,117)	(69,371)
Other receivables	(7,238)	(120,277)
Prepaid expenses and other assets	2,428	6,451
Accounts payable and accrued liabilities	56,667	32,531
Grants payable to The Seattle Public Library	(343,493)	(668,235)
Net Cash Used in Operating Activities	<u>\$ (774,300)</u>	<u>\$ (989,142)</u>

See accompanying notes.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements For the Years Ended December 31, 2022 and 2021

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 the 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 \$228 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.

Contributions and Grants Revenue Recognition - Contributions and grants from foundations and public and private funders are recognized as revenue in the period received, including unconditional promises to give. Conditional contributions and grants are recognized in the period in which donor-imposed conditions have been met. Donated goods and services are recognized at their fair value on the date received. Donated securities are recorded at their published fair value on the date received. It is the Foundation's policy to sell donated securities upon receipt.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements For the Years Ended December 31, 2022 and 2021

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 conditions on which they depend are substantially met. Consistent with industry practice, the Foundation accounts for a grant received from the U.S. Federal Government as a conditional grant, with revenue recognized as qualifying expenditures are incurred. There was one conditional grant received in 2020 from the Institute of Museum and Library Services (IMLS) totaling \$247,307 to be paid over two years. The outstanding balance totaled \$0 and \$63,796 as of December 31, 2022 and 2021, respectively. Another conditional grant was received in 2022 from the Institute of Museum and Library Services totaling \$249,743 to be paid over three years. The outstanding balance on the second IMLS grant totaled \$163,546 as of December 31, 2022.

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 both December 31, 2022 and 2021, approximately 76% and 83%, respectively, of the Foundation's investment portfolio was invested in four exchange traded funds and mutual funds.

Promises to give from one donor accounted for approximately 46% of the outstanding pledges receivable balance as of December 31, 2022. Promises to give from two donors accounted for approximately 80% of the outstanding pledges receivable balance as of December 31, 2021. There were no concentrations of contribution revenue for the year ended December 31, 2022 and 2021.

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. Beneficial interests in assets held by Seattle Foundation and in a split interest agreement are reported at fair value (Notes 5 and 6).

Investment securities, in general, are exposed to various risks, including interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that the value of these investments will fluctuate in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements For the Years Ended December 31, 2022 and 2021

Note 1 - Continued

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 \$19,214 and \$15,066 as of December 31, 2022 and 2021, 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). The Foundation considers the grants awarded to the Library to be conditional, based upon the Library conducting activities and incurring expenses as specified in the grant agreement. Grants for which the conditions have been satisfied 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. All grants payable recorded as of year end are expected to be distributed within one year. Conditional grants unrecognized as of December 31, 2022 and 2021 totaled \$145,577 and \$114,401, respectively.

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 (Note 10). 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; or

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 are allocated based on content and the nature of the particular program, if applicable, or operating expense incurred.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

**Notes to Financial Statements
For the Years Ended December 31, 2022 and 2021**

Note 1 - Continued

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 with respect to the financial statements for the year ended December 31, 2022 through May 4, 2023, the date 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>2022</u>	<u>2021</u>
Promises to give expected in less than one year	\$ 211,023	\$ 160,893
Promises to give expected in one to five years	<u>118,610</u>	<u>152,863</u>
	329,633	313,756
Allowance for uncollectible promises to give	(25,000)	(25,000)
Present value discount (0.27% to 0.35%)	<u>(28,520)</u>	<u>(67,140)</u>
Promises to Give, Net	<u>\$ 276,113</u>	<u>\$ 221,616</u>

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

	<u>2022</u>	<u>2021</u>
Allowance, beginning of year	\$ 25,000	\$ 25,000
Write-off of uncollectible promises to give	(4,492)	(8,234)
Change in provision for uncollectible promises to give	<u>4,492</u>	<u>8,234</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, 2022 and 2021**

Note 3 - Investments

The Foundation considers its beneficial interests and a split interest agreement to be components of its total investments (Note 4). Investments are presented in the statements of financial position as follows as of December 31:

	<u>2022</u>	<u>2021</u>
Investments	\$ 75,216,314	\$ 87,616,130
Beneficial interest in assets held by Seattle Foundation	3,379,330	4,215,487
Split interest agreement	<u>495,776</u>	<u>529,034</u>
Total Investments	<u>\$ 79,091,420</u>	<u>\$ 92,360,651</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>2022</u>	<u>2021</u>
Interest and dividends	\$ 1,487,290	\$ 1,470,457
Realized (loss) gain	(1,009,437)	3,181,543
Unrealized (loss) gain	(12,977,522)	3,897,371
Change in value of beneficial interest in Seattle Foundation	(687,699)	538,032
Change in value of split interest agreement	31,742	33,625
Investment fees and expenses	<u>(143,947)</u>	<u>(152,685)</u>
Investment Return, Net	<u>\$ (13,299,573)</u>	<u>\$ 8,968,343</u>

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 4 - Fair Value Measurements

Fair values of investments measured on a recurring basis are as follows as of December 31, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2022 Total</u>
Exchange traded index and mutual funds-				
Vanguard Total Stock Market ETF (U.S. Equities)	\$ 31,206,992	\$ -	\$ -	\$ 31,206,992
Vanguard All World ex-U.S ETF (Non-U.S. Equities)	10,978,303			10,978,303
Vanguard Short Term Bond Market ETF (U.S. Bonds)	6,268,285			6,268,285
Metropolitan West Total Return Bond I (U.S. Bonds)	5,115,748			5,115,748
MSILF Treasury Securities Inst (U.S. Bonds)	1,463,701			1,463,701
Government Securities	6,454,927			6,454,927
PIMCO Total Return Fund (Flexible Bond Fund)	<u>7,551,629</u>			<u>7,551,629</u>
Total exchange traded index and mutual funds	69,039,585			69,039,585
Real Estate Investment Trust		6,176,729		6,176,729
Beneficial interest in assets held by Seattle Foundation			3,379,330	3,379,330
Split interest agreement			<u>495,776</u>	<u>495,776</u>
Investments Reported at Fair Value	<u>\$ 69,039,585</u>	<u>\$ 6,176,729</u>	<u>\$ 3,875,106</u>	<u>\$ 79,091,420</u>

THE SEATTLE PUBLIC LIBRARY FOUNDATION

**Notes to Financial Statements
For the Years Ended December 31, 2022 and 2021**

Note 4 - Continued

Fair values of investments measured on a recurring basis are as follows as of December 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2021 Total</u>
Exchange traded index and mutual funds-				
Vanguard Total Stock Market ETF (U.S. Equities)	\$ 34,625,438	\$ -	\$ -	\$ 34,625,438
Vanguard All World ex-U.S ETF (Non-U.S. Equities)	16,729,992			16,729,992
Vanguard Total Bond Market ETF (U.S. Bonds)	12,040,377			12,040,377
Metropolitan West Total Return Bond I (U.S. Bonds)	6,748,057			6,748,057
MSIF Ultra Short Income (U.S. Bonds)	7,791,280			7,791,280
PIMCO Total Return Fund (Flexible Bond Fund)	<u>9,680,986</u>			<u>9,680,986</u>
Total exchange traded index and mutual funds	87,616,130			87,616,130
Beneficial interest in assets held by Seattle Foundation			4,215,487	4,215,487
Split interest agreement			<u>529,034</u>	<u>529,034</u>
Investments Reported at Fair Value	<u>\$ 87,616,130</u>	<u>\$ -</u>	<u>\$ 4,744,521</u>	<u>\$ 92,360,651</u>

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, 2022 and 2021.

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.

Real Estate Investment Trust - Valued using closing price reported in the active market.

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.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

**Notes to Financial Statements
For the Years Ended December 31, 2022 and 2021**

Note 4 - Continued

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
	<u> </u>	<u> </u>	<u> </u>
Fair Value, December 31, 2020	\$ 3,798,763	\$ 560,409	\$ 4,359,172
Change in value included in the change in net assets	538,032	33,625	571,657
Distributions received	<u>(121,308)</u>	<u>(65,000)</u>	<u>(186,308)</u>
Fair Value, December 31, 2021	4,215,487	529,034	4,744,521
Change in value included in the change in net assets	(687,699)	31,742	(655,957)
Distributions received	<u>(148,458)</u>	<u>(65,000)</u>	<u>(213,458)</u>
Fair Value, December 31, 2022	<u>\$ 3,379,330</u>	<u>\$ 495,776</u>	<u>\$ 3,875,106</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 amounts 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, 2022 and 2021

Note 6 - Split Interest Agreement

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 at the time the Trust was created 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, 2022 and 2021, 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 \$31,742 and \$33,625 for the years ended December 31, 2022 and 2021, respectively. The Foundation's outstanding interest in the trust, at net present value, totals \$495,776 and \$529,034 as of December 31, 2022 and 2021, respectively, and is recorded in the statements of financial position. 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 \$983,277 and \$951,534 as of December 31, 2022 and 2021, respectively (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>2022</u>	<u>2021</u>
Undesignated	\$ 15,734,772	\$ 16,743,802
Board-designated-		
General quasi-endowment	7,155,000	7,155,000
Accumulated earnings on quasi-endowments	2,265,914	4,467,878
The Seattle Room and Center for Local History	<u>600,000</u>	<u>600,000</u>
Total board-designated	<u>10,020,914</u>	<u>12,222,878</u>
Total Net Assets Without Donor Restrictions	<u>\$ 25,755,686</u>	<u>\$ 28,966,680</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 Foundation's Board of Directors has also 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 SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements For the Years Ended December 31, 2022 and 2021

Note 7 - Continued

The two quasi-endowment funds 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 has a policy of appropriating for distribution each year 4.50% 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>2022</u>	<u>2021</u>
Subject to the Passage of Time or Expenditure for Specified Purpose-		
Collections and resources	\$ 12,357,516	\$ 19,185,680
Library programs	7,527,651	12,418,996
Capital improvements	36,939	144,315
Time restricted gifts	<u>346,331</u>	<u>365,468</u>
Total subject to the passage of time or expenditure for specified purpose	20,268,437	32,114,459
Split interest agreement (Note 6)	983,277	951,534
Endowment corpus	<u>32,994,921</u>	<u>32,482,965</u>
Total Net Assets With Donor Restrictions	<u>\$ 54,246,635</u>	<u>\$ 65,548,958</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 thirty-five funds established to support a variety of areas of the Library. Its endowments include thirty-three 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.

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.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements For the Years Ended December 31, 2022 and 2021

Note 9 - Continued

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, 2022 and 2021, there were deficiencies of \$115,444 and \$0, respectively.

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 4.50% 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, 2022 and 2021

Note 9 - Continued

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

	Net Assets	Net Assets With Donor Restrictions		2022 Total
	Without Donor Restrictions	Accumulated Earnings	Endowment Corpus	
Donor-restricted endowment funds-				
Endowments for collections and resources	\$ -	\$ 12,149,278	\$ 17,398,396	\$ 29,547,674
Endowments for library programs		5,297,063	13,991,989	19,289,052
General endowments		1,167,008	1,604,536	2,771,544
Total donor-restricted endowments		18,613,349	32,994,921	51,608,270
Board-designated quasi-endowment funds-				
The Seattle Room and Center for Local History	683,745			683,745
General board-designated quasi-endowments	9,337,169			9,337,169
Total board-designated endowments	10,020,914			10,020,914
Total Endowment Funds, December 31, 2022	\$ 10,020,914	\$ 18,613,349	\$ 32,994,921	\$ 61,629,184
	Net Assets	Net Assets With Donor Restrictions		2021 Total
	Without Donor Restriction	Accumulated Earnings	Endowment Corpus	
Donor-restricted endowment funds-				
Endowments for collections and resources	\$ -	\$ 18,924,175	\$ 17,393,397	\$ 36,317,572
Endowments for library programs		9,927,756	13,727,273	23,655,029
General endowments		1,671,961	1,362,295	3,034,256
Total donor-restricted endowments		30,523,892	32,482,965	63,006,857
Board-designated quasi-endowment funds-				
The Seattle Room and Center for Local History	839,098			839,098
General board-designated quasi-endowments	11,383,780			11,383,780
Total board-designated endowments	12,222,878			12,222,878
Total Endowment Funds, December 31, 2021	\$ 12,222,878	\$ 30,523,892	\$ 32,482,965	\$ 75,229,735

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 9 - Continued

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

	<u>2022</u>	<u>2021</u>
Endowment funds	\$ 32,844,921	\$ 32,282,965
Endowment pledges receivable	<u>150,000</u>	<u>200,000</u>
Total Endowment Net Assets	<u>\$ 32,994,921</u>	<u>\$ 32,482,965</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 Accumulated Earnings</u>	<u>Endowment Corpus</u>	<u>Total</u>
Endowment net assets, January 1, 2020	\$ 11,465,837	\$ 25,973,196	\$ 31,103,309	\$ 68,542,342
Endowment investment return, net	1,094,777	6,418,701		7,513,478
Contributions			1,379,656	1,379,656
Appropriation of endowment for expenditure	<u>(337,736)</u>	<u>(1,868,005)</u>		<u>(2,205,741)</u>
Endowment Net Assets, December 31, 2021	12,222,878	30,523,892	32,482,965	75,229,735
Endowment investment return, net	(1,845,964)	(9,442,566)		(11,288,530)
Contributions			511,956	511,956
Appropriation of endowment for expenditure	<u>(356,000)</u>	<u>(2,467,977)</u>		<u>(2,823,977)</u>
Endowment Net Assets, December 31, 2022	<u>\$ 10,020,914</u>	<u>\$ 18,613,349</u>	<u>\$ 32,994,921</u>	<u>\$ 61,629,184</u>

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements For the Years Ended December 31, 2022 and 2021

Note 10 - Donated Goods and Services

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

	<u>2022</u>	<u>2021</u>
Print and radio	\$ 284,494	\$ 215,625
Museum pass program	144,695	
Supplies	14,298	2,300
Video and photography production	8,335	13,844
Lodging and travel	<u>3,344</u>	
Total Donated Goods and Services	<u>\$ 455,166</u>	<u>\$ 231,769</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, 2022 and 2021 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. The Library issued \$144,695 worth of museum passes through the museum pass program during 2022. Due to COVID-19 closures, the Library did not issue any museum passes in 2021. 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 \$444,240 and \$223,165 for the years ended December 31, 2022 and 2021, 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, 2022 and 2021**

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:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 2,110,141	\$ 3,710,313
Promises to give, net	276,113	221,616
Other receivables (Note 14)	127,515	120,277
Investments	75,216,314	87,616,130
Distributions from beneficial interests in assets held by others expected within one year	<u>14,617</u>	<u>11,940</u>
 Total financial assets, excluding split interest agreements and beneficial interest in assets held by others	 77,744,700	 91,680,276
Less-		
Board-designated endowment funds	(10,020,914)	(12,222,878)
Donor-restricted endowment funds	(51,608,270)	(63,006,857)
Add back unrestricted portion of endowment appropriations	30,200	30,200
Donor-restricted for specific programs or time	<u>(1,655,088)</u>	<u>(1,590,567)</u>
 Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	 <u>\$ 14,490,628</u>	 <u>\$ 14,890,174</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 4.50% 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, 2022 and 2021

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. Several administrative operations functions were impacted as a result of the formalization work, including formalizing a lease (discussed further below), and 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 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. The lease automatically renewed for five years on January 1, 2020.

Note 13 - Retirement Plan

The Foundation entered into a Professional Employer Organization (PEO) relationship with an entity effective December 2016. The Foundation terminated the original PEO relationship and entered into an agreement with another PEO effective April 29, 2020. The benefits under the new PEO agreement are consistent with those under the prior PEO agreement, including 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 \$62,673 and \$56,698 for the years ended December 31, 2022 and 2021, respectively.

Note 14 - Employee Retention Credit

The Foundation became eligible for the Employee Retention Credit during the year ended December 31, 2021. A receivable in the amount of approximately \$120,000 has been recorded as the credit has not yet been processed by the Internal Revenue Service at December 31, 2022.