THE LIBRARY FOUNDATION

Audited Financial Statements

For the Year Ended June 30, 2016
INDEPENDENT AUDITOR’S REPORT

To the Board of Trustees
The Library Foundation

We have audited the accompanying financial statements of The Library Foundation (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Library Foundation as of June 30, 2016, and changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information
We have previously audited The Library Foundation’s 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 10, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Portland, Oregon
September 15, 2016
### ASSETS

<table>
<thead>
<tr>
<th>Description</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$505,996</td>
<td>$549,268</td>
</tr>
<tr>
<td>Contributions receivable, net</td>
<td>177,483</td>
<td>173,073</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>19,216</td>
<td>23,964</td>
</tr>
<tr>
<td>Investments</td>
<td>16,777,272</td>
<td>17,480,552</td>
</tr>
<tr>
<td>Split-interest and other agreements</td>
<td>572,346</td>
<td>598,151</td>
</tr>
<tr>
<td>Investments restricted for deferred compensation</td>
<td>39,297</td>
<td>-</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>13,880</td>
<td>24,886</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td><strong>$18,105,490</strong></td>
<td><strong>$18,849,894</strong></td>
</tr>
</tbody>
</table>

### LIABILITIES AND NET ASSETS

<table>
<thead>
<tr>
<th>Description</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$27,275</td>
<td>$32,524</td>
</tr>
<tr>
<td>Support payable to Multnomah County Library</td>
<td>171,562</td>
<td>177,716</td>
</tr>
<tr>
<td>Deferred compensation</td>
<td>39,297</td>
<td>-</td>
</tr>
<tr>
<td>Gift annuity payable</td>
<td>5,279</td>
<td>5,507</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>243,413</strong></td>
<td><strong>215,747</strong></td>
</tr>
</tbody>
</table>

Net assets:

Unrestricted:
- Available for general operations                                           | 686,450  | 419,146  |
- Board designated                                                          | 8,830,219 | 9,680,314 |

Total unrestricted                                                          | 9,516,669 | 10,099,460 |
Temporarily restricted                                                       | 3,989,095 | 4,272,813  |
Permanently restricted                                                       | 4,356,313 | 4,261,874  |

**Total net assets**                                                         | **17,862,077** | **18,634,147** |

**TOTAL LIABILITIES AND NET ASSETS**                                          | **$18,105,490** | **$18,849,894** |

See notes to financial statements.
**THE LIBRARY FOUNDATION**  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2016  
(With comparative totals for 2015)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th></th>
<th></th>
<th>2015</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unrestricted</td>
<td>Temporarily Restricted</td>
<td>Permanently Restricted</td>
<td>Total</td>
<td>Total</td>
</tr>
<tr>
<td><strong>Revenues, gains and other support:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private contributions and grants</td>
<td>$ 607,273</td>
<td>$ 1,090,092</td>
<td>$ 94,500</td>
<td>$ 1,791,865</td>
<td>$ 2,537,005</td>
</tr>
<tr>
<td>Donated assets and services (in-kind)</td>
<td>450</td>
<td>479,024</td>
<td>-</td>
<td>479,474</td>
<td>819,719</td>
</tr>
<tr>
<td>Interest and dividend income, net of fees of $34,546 for 2016 and $36,179 for 2015</td>
<td>347,399</td>
<td>189,610</td>
<td>-</td>
<td>537,009</td>
<td>474,054</td>
</tr>
<tr>
<td>Net realized and unrealized losses on investments</td>
<td>(785,194)</td>
<td>(363,157)</td>
<td>-</td>
<td>(1,148,351)</td>
<td>(530,068)</td>
</tr>
<tr>
<td>Net depreciation in the actuarial value of contributions receivable from split-interest and other agreements</td>
<td>-</td>
<td>(25,462)</td>
<td>(61)</td>
<td>(25,523)</td>
<td>(59,114)</td>
</tr>
<tr>
<td>Other</td>
<td>296</td>
<td>-</td>
<td>-</td>
<td>296</td>
<td>974</td>
</tr>
<tr>
<td><strong>Revenues, gains and other support</strong></td>
<td>170,224</td>
<td>1,370,107</td>
<td>94,439</td>
<td>1,634,770</td>
<td>3,242,570</td>
</tr>
<tr>
<td><strong>Net assets released from restrictions</strong></td>
<td>1,653,825</td>
<td>(1,653,825)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total revenues, gains and other support</strong></td>
<td>1,824,049</td>
<td>(283,718)</td>
<td>94,439</td>
<td>1,634,770</td>
<td>3,242,570</td>
</tr>
</tbody>
</table>

| **Expenses:** |      |         |         |               |         |
| Direct program support of Multnomah County Library: |      |         |         |               |         |
| Early literacy | 274,246 | - | - | 274,246 | 422,938 |
| School-age literacy | 1,110,479 | - | - | 1,110,479 | 855,005 |
| Learning for life | 87,264 | - | - | 87,264 | 178,560 |
| Arts, culture and humanities programming | 29,972 | - | - | 29,972 | 58,565 |
| Books and materials | 37,869 | - | - | 37,869 | 350,485 |
| Library staff development and other | 22,545 | - | - | 22,545 | 30,255 |
| **Total direct support** | 1,562,375 | - | - | 1,562,375 | 1,893,808 |
| Program support of Multnomah County Library | 536,164 | - | - | 536,164 | 534,933 |
| Advocacy | - | - | - | - | 134,484 |
| **Total program expenses** | 2,098,539 | - | - | 2,098,539 | 2,565,225 |
| Management and general | 203,910 | - | - | 203,910 | 213,256 |
| Fundraising | 104,391 | - | - | 104,391 | 105,708 |
| **Total expenses** | 2,406,840 | - | - | 2,406,840 | 2,884,189 |
| **Change in net assets** | (582,791) | (283,718) | 94,439 | (772,070) | 358,381 |

| **Net assets:** |      |         |         |               |         |
| Beginning of year | $ 10,099,460 | $ 4,272,813 | $ 4,261,874 | $ 18,634,147 | $ 18,275,766 |
| End of year | $ 9,516,669 | $ 3,989,095 | $ 4,356,313 | $ 17,862,077 | $ 18,634,147 |

See notes to financial statements.
THE LIBRARY FOUNDATION
STATEMENT OF CASH FLOWS
For the year ended June 30, 2016
(With comparative totals for 2015)

See notes to financial statements.
1. DESCRIPTION OF THE FOUNDATION

The Library Foundation (the ‘foundation’) was founded more than 20 years ago to further the work of Multnomah County Library (the ‘library’), supporting the library’s leadership and innovation and helping the library address emerging community needs through private support. The foundation and the library work together, in a strong partnership, to determine where private funds can be leveraged to have the greatest impact and at the same time, not supplant the public’s responsibility for funding a strong library system. The foundation’s revenues are supported with contributions, large and small, made by thousands of individuals, businesses and foundations.

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

Last year, the library reached more than 222,000 people with foundation support. Of these, 200,000 children and adults were reached with proven literacy programs and services. Foundation support expanded the library’s work with the hardest-to-reach and most-at-risk young people, taking books and effective programs directly into the lives of children, parents, grandparents, childcare providers and educators. An additional 22,000 people were reached through arts, cultural, literary and educational programs.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

Support Payable to the Library
Library support is accrued when awarded by the foundation and is unconditional. Library support is provided from available income and principal in accordance with restrictions imposed by donors.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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

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

The foundation recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The foundation recorded approximately $46,500 during the year ended June 30, 2016 ($86,700 in 2015) for contributed media sponsorship and event coordination services, which is included in fundraising and direct support of the library. The foundation also recorded donated goods totaling approximately $433,000 for the year ended June 30, 2016 ($733,000 in 2015), which are included in direct support of the library. In addition, a number of volunteers made significant contributions of their time in the furtherance of the foundation’s programs. The value of this contributed time is not reflected in the accompanying financial statements since the recognition criterion has not been met.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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

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

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

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

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

The foundation’s income tax returns for years ending June 30, 2013 and prior are generally no longer subject to examination by taxing authorities in its major tax jurisdictions.

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

Summarized Financial Information for 2015
The financial information as of June 30, 2015, and for the year ended June 30, 2015, is presented for comparative purposes and is not intended to be a complete financial statement presentation.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events
The Foundation has evaluated all subsequent events through September 15, 2016, the date the financial statements were available to be issued.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable represent unsecured and unconditional promises to give as follows at June 30, 2016 and 2015:

<table>
<thead>
<tr>
<th>Pledges receivable:</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due within one year</td>
<td>$159,125</td>
<td>$ 3,526</td>
</tr>
<tr>
<td>Due in two to five years</td>
<td>25,000</td>
<td>170,700</td>
</tr>
<tr>
<td>Total pledges receivable</td>
<td>184,125</td>
<td>174,226</td>
</tr>
<tr>
<td>Less allowance for uncollectible accounts</td>
<td>6,642</td>
<td>1,153</td>
</tr>
<tr>
<td>Pledges receivable, net</td>
<td>$177,483</td>
<td>$173,073</td>
</tr>
</tbody>
</table>

4. INVESTMENTS

Investments at June 30, 2016 and 2015 consist of:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash equivalents</td>
<td>$3,283,007</td>
<td>$2,808,361</td>
</tr>
<tr>
<td>Fixed income securities</td>
<td>3,200,156</td>
<td>3,662,175</td>
</tr>
<tr>
<td>Equity securities - domestic</td>
<td>6,070,937</td>
<td>6,590,230</td>
</tr>
<tr>
<td>Equity securities - international</td>
<td>4,078,557</td>
<td>4,419,786</td>
</tr>
<tr>
<td>Limited partnership</td>
<td>144,615</td>
<td>-</td>
</tr>
<tr>
<td>Total investments</td>
<td>$16,777,272</td>
<td>$17,480,552</td>
</tr>
</tbody>
</table>
5. **PROPERTY AND EQUIPMENT**

Property and equipment at June 30, 2016 and 2015 consist of:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture and equipment</td>
<td>$86,541</td>
<td>$86,541</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>$72,661</td>
<td>$61,655</td>
</tr>
<tr>
<td><strong>Property and equipment, net</strong></td>
<td><strong>$13,880</strong></td>
<td><strong>$24,886</strong></td>
</tr>
</tbody>
</table>

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

**Charitable Remainder Unitrust**
The foundation is the beneficiary under a charitable remainder unitrust. A remainder trust provides for the payment of distributions to a designated beneficiary for the life of the beneficiary. At the end of the trust's terms, a portion of the remaining assets are available and will be distributed to the foundation as stipulated by the grantor. The present value of the future benefits to be received by the foundation is recorded in the statement of activities as a temporarily restricted contribution at the time the amount is measurable. The foundation will receive all of the assets that remain in the trust after the death of the beneficiary. The beneficiary receives distributions of 8% of the fair value of assets at the beginning of the year. Utilizing a 6% discount rate and the beneficiary’s projected life, the estimated fair value of the amount receivable under this agreement is $216,136 at June 30, 2016 ($241,257 at June 30, 2015).

**Charitable Gift Annuity**
The foundation received a charitable gift annuity of $10,000. Under the terms of the agreement, the donor receives quarterly payments of $143 over the donor’s remaining life. Using a discount rate of 6.3%, the estimated present value of the foundation’s liability under this agreement is $5,279 at June 30, 2016 ($5,507 at June 30, 2015). Related assets included in split-interest and other agreements total $4,108 at June 30, 2016 ($4,731 at June 30, 2015).

**Beneficial Interest in Perpetual Trust**
The foundation is a beneficiary of a trust created through an estate. The asset recorded is determined by multiplying the total fair value of the Trust’s assets by the foundation’s percentage share. Any change to the value is reflected as a revaluation gain or loss in the current statement of activities. The beneficial interest in the perpetual trust is classified as a permanently restricted net asset. The estimated value of the foundation’s interest in the trust was $352,102 at June 30, 2016 ($352,163 at June 30, 2015).
7. BOARD DESIGNATED NET ASSETS

As of June 30, 2016, The Library Foundation’s Board of Trustees had designated $8,830,219 ($9,680,314 in 2015) of unrestricted net assets as a quasi-endowment fund to provide for the future administration of the foundation and future support of foundation activities. (See Note 17)

8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2016 and 2015 are restricted by donors either as to purpose or time, as follows:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Undistributed endowment earnings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>restricted purpose (Note 17)</td>
<td>$751,417</td>
<td>$954,212</td>
</tr>
<tr>
<td>Undistributed endowment earnings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>unrestricted purpose (Note 17)</td>
<td>318,109</td>
<td>371,200</td>
</tr>
<tr>
<td>Split-interest and other agreements</td>
<td>215,505</td>
<td>240,967</td>
</tr>
<tr>
<td>Other restricted funds</td>
<td>2,704,064</td>
<td>2,706,434</td>
</tr>
<tr>
<td>Total temporarily restricted net assets</td>
<td>$3,989,095</td>
<td>$4,272,813</td>
</tr>
</tbody>
</table>

9. PERMANENTLY RESTRICTED NET ASSETS

As of June 30, 2016, the foundation held $4,004,211 ($3,909,711 at June 30, 2015) as part of its endowment funds. The investment income earned on the balances of these permanently restricted net assets is generally restricted as to purpose. Unexpended endowment income is reported as temporarily restricted until appropriated for expenditure. (See Note 17)

Also included in permanently restricted net assets is the beneficial interest in a perpetual trust totaling $352,102 at June 30, 2016 ($352,163 at June 30, 2015).
10. SUPPORT OF MULTNOMAH COUNTY LIBRARY

The Library Foundation provided $2,098,539 in program support for Multnomah County Library’s work during the year ending June 30, 2016, enhancing 15 library programs and 14 different collections. Foundation-supported programs reached more than 222,000 people and made more than 150,000 books and materials available to children, families and adults. An additional 3,000 books and other materials were added to the permanent collection with foundation support.

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

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

<table>
<thead>
<tr>
<th>Cash support:</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early Literacy</td>
<td>274,246</td>
</tr>
<tr>
<td>School-age literacy</td>
<td>668,635</td>
</tr>
<tr>
<td>Learning for life</td>
<td>50,409</td>
</tr>
<tr>
<td>Arts, culture and humanities programming</td>
<td>29,972</td>
</tr>
<tr>
<td>Books and materials</td>
<td>37,544</td>
</tr>
<tr>
<td>Library staff development and other</td>
<td>22,095</td>
</tr>
<tr>
<td><strong>Total cash support</strong></td>
<td><strong>1,082,901</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>In-kind support*</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total direct support</strong></td>
<td><strong>1,562,375</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Program services support</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total support for the library</strong></td>
<td><strong>$2,098,539</strong></td>
</tr>
</tbody>
</table>

*86% of in-kind support is incentive prizes for youth participating in Summer Reading.
11. CONCENTRATIONS OF CREDIT RISK

The foundation maintains its cash balances at a financial institution and in custodial accounts. The balance held in bank accounts is insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. The balances, at times, may exceed the federally insured limit. Uninsured balances at June 30, 2016 approximated $285,600 ($325,600 at June 30, 2015), respectively. The remaining balances are fully insured or held in custodial accounts.

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

12. OPERATING LEASE

The foundation leases office space under a ten-year lease through July 2018. Rent expense was approximately $42,800 for the year ended June 30, 2016 ($38,300 in 2015). Base monthly rent is currently $3,572 with 4% annual increases. Minimum future lease payments are as follows:

<table>
<thead>
<tr>
<th>Year ending June 30, 2017</th>
<th>$ 44,400</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>46,200</td>
</tr>
<tr>
<td>2019</td>
<td>3,900</td>
</tr>
<tr>
<td>Total</td>
<td>$ 94,500</td>
</tr>
</tbody>
</table>

13. RETIREMENT PLAN

The foundation has a tax sheltered annuity plan, as defined under Internal Revenue Code Section 403(b), for all employees who meet eligibility requirements and elect to participate. Employees may make voluntary contributions to the plan on a pre-tax basis, up to the limits allowed by law. Employees are fully vested in both voluntary employee contributions and foundation contributions made at the discretion of the Board of Trustees. During the years ended June 30, 2016 and 2015, the foundation contributed an amount equal to 3% of employee’s compensation and matched employee contributions up to an additional 3%. Contributions to the plan totaled $23,391 for the year ended June 30, 2016 ($20,851 in 2015).
14. DEFERRED COMPENSATION

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

15. STATEMENT OF CASH FLOWS RECONCILIATION

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in net assets</td>
<td>$(772,070)</td>
<td>$358,381</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>11,006</td>
<td>9,427</td>
</tr>
<tr>
<td>Change in reserve for uncollectible pledges</td>
<td>5,490</td>
<td>(499)</td>
</tr>
<tr>
<td>Net realized/unrealized losses on investments</td>
<td>1,148,351</td>
<td>530,068</td>
</tr>
<tr>
<td>Contributions restricted for long-term investment</td>
<td>(94,500)</td>
<td>(202,604)</td>
</tr>
<tr>
<td>Net change in actuarial value of split-interest agreements</td>
<td>25,523</td>
<td>59,114</td>
</tr>
<tr>
<td>(Increase) decrease in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions receivable</td>
<td>(35,423)</td>
<td>(93,622)</td>
</tr>
<tr>
<td>Split-interest agreements and other</td>
<td>25,805</td>
<td>(19,162)</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>4,748</td>
<td>(6,660)</td>
</tr>
<tr>
<td>Increase (decrease) in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>(5,249)</td>
<td>(3,324)</td>
</tr>
<tr>
<td>Support payable to Multnomah County Library</td>
<td>(6,154)</td>
<td>(7,898)</td>
</tr>
<tr>
<td>Gift annuity payable</td>
<td>(228)</td>
<td>(215)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>$307,299</td>
<td>$623,006</td>
</tr>
</tbody>
</table>
16. **FAIR VALUE MEASUREMENTS**

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

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

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

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

Fair values of assets measured on recurring basis at June 30, 2016 are as follows:

<table>
<thead>
<tr>
<th>Investments:</th>
<th>Total</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed income</td>
<td>$2,168,672</td>
<td>$2,168,672</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>Fixed income - long term</td>
<td>1,031,484</td>
<td>1,031,484</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>Mutual funds - domestic</td>
<td>4,123,542</td>
<td>4,123,542</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>Mutual funds - long term - domestic</td>
<td>1,947,395</td>
<td>1,947,395</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>Mutual funds - international</td>
<td>2,843,721</td>
<td>2,843,721</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>Mutual funds - long term - international</td>
<td>1,234,836</td>
<td>1,234,836</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>Limited partnership</td>
<td>144,615</td>
<td>$-</td>
<td>$-</td>
<td>144,615</td>
</tr>
<tr>
<td>Beneficial interests in charitable remainder trusts</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>216,136</td>
</tr>
<tr>
<td>Beneficial interest in perpetual trust</td>
<td>216,136</td>
<td>$-</td>
<td>$-</td>
<td>216,136</td>
</tr>
<tr>
<td></td>
<td>352,102</td>
<td>$-</td>
<td>$-</td>
<td>352,102</td>
</tr>
</tbody>
</table>

Fair values for publically traded investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Investments in limited partnerships are reported at fair value as determined by the general partner in the absence of a readily determinable market value.

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

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

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

Investment in limited partnership:

<table>
<thead>
<tr>
<th>Description</th>
<th>Beginning Year</th>
<th>Change</th>
<th>End Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of year</td>
<td>$</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Capital investment</td>
<td>144,615</td>
<td></td>
<td>144,615</td>
</tr>
<tr>
<td>Balance at end of year</td>
<td>$ 144,615</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Contribution receivable - beneficial interest in charitable remainder trust:

<table>
<thead>
<tr>
<th>Description</th>
<th>Beginning Year</th>
<th>Change</th>
<th>End Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of year</td>
<td>$ 241,257</td>
<td>Distr.</td>
<td>$ 216,136</td>
</tr>
<tr>
<td>Distributions</td>
<td>(20,486)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in value of split-interest agreement</td>
<td>(4,635)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>temporarily restricted</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at end of year</td>
<td>$ 216,136</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Beneficial interest in perpetual trust:

<table>
<thead>
<tr>
<th>Description</th>
<th>Beginning Year</th>
<th>Change</th>
<th>End Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of year</td>
<td>$ 352,163</td>
<td>Chg.</td>
<td>$ 352,102</td>
</tr>
<tr>
<td>Change in value of split-interest agreement</td>
<td>(61)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>permanently restricted</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at end of year</td>
<td>$ 352,102</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

17. ENDOWMENT

The foundation’s endowment consists of 49 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.
17. ENDOWMENT, Continued

Interpretation of Relevant Law
As a matter of policy, the Board of Trustees of the foundation has preserved the fair value of
the original gift as of the gift date of the donor-restricted endowment funds absent explicit
donor stipulations to the contrary. As a result of this policy, the foundation classifies as
permanently restricted net assets (a) the original value of gifts donated to the permanent
endowment (b) the original value of subsequent gifts to the permanent endowment and (c)
accumulations to the permanent endowment made in accordance with the direction of the
applicable donor gift instrument at the time the accumulation is added to the fund. The
remaining portion of the donor-restricted endowment fund that is not classified in
permanently restricted net assets is classified as temporarily restricted net assets until
those amounts are appropriated for expenditure by the foundation in a manner consistent
with the standard of prudence prescribed by the Uniform Prudent Management of
Institutional Funds Act (the Act). In accordance with the Act, the foundation considers
the following factors in making a determination to appropriate or accumulate donor-
restricted endowment funds:

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

Endowment net asset composition by type of fund as of June 30, 2016:

<table>
<thead>
<tr>
<th>June 30, 2016</th>
<th>Board Designated</th>
<th>Donor-Restricted Endowment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quasi-Endowment</td>
<td>Temporarily Restricted</td>
</tr>
<tr>
<td>Donor-restricted</td>
<td>$</td>
<td>$ 1,069,526</td>
</tr>
<tr>
<td>Board-designated</td>
<td>8,830,219</td>
<td>-</td>
</tr>
<tr>
<td>Total endowment net assets</td>
<td>8,830,219</td>
<td>1,069,526</td>
</tr>
</tbody>
</table>
17. ENDOWMENT, Continued

Changes in endowment net assets for the year ended June 30, 2016:

<table>
<thead>
<tr>
<th>Endowment net assets -</th>
<th>Board Designated Quasi-Endowment</th>
<th>Donor-Restricted Endowment</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of year</td>
<td>$ 9,680,314</td>
<td>$ 1,325,412</td>
<td>$ 14,915,437</td>
</tr>
<tr>
<td>Investment return:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment earnings, net</td>
<td>354,214</td>
<td>166,836</td>
<td>521,050</td>
</tr>
<tr>
<td>Net realized and unrealized depreciation</td>
<td>(757,768)</td>
<td>(315,298)</td>
<td>(1,073,066)</td>
</tr>
<tr>
<td>Contributions</td>
<td>80,459</td>
<td>-</td>
<td>174,959</td>
</tr>
<tr>
<td>Appropriation of endowment assets for expenditure</td>
<td>(527,000)</td>
<td>(107,424)</td>
<td>(634,424)</td>
</tr>
<tr>
<td>Total changes</td>
<td>(850,095)</td>
<td>(255,886)</td>
<td>(1,011,481)</td>
</tr>
<tr>
<td>Endowment net assets - end of year</td>
<td>$ 8,830,219</td>
<td>$ 1,069,526</td>
<td>$ 13,903,956</td>
</tr>
</tbody>
</table>

Cumulative Endowment Adjustment
From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or the Act requires the foundation to retain as a fund of perpetual duration. No balances were below the required level at June 30, 2016 and 2015.

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

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

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