

THE LIBRARY FOUNDATION

Audited Financial Statements

For the Year Ended June 30, 2022



MCDONALD JACOBS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Library Foundation

Opinion

We have audited the accompanying financial statements of The Library Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Library Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 Library Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 generally accepted auditing standards 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 generally accepted auditing standards, 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 Library 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 Library 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.

Report on Summarized Comparative Information

We have previously audited The Library Foundation 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 14, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

McDonald Jacobz, P.C.

Portland, Oregon
September 20, 2022

THE LIBRARY FOUNDATION
STATEMENT OF FINANCIAL POSITION
June 30, 2022
(With comparative totals for 2021)

	2022	2021
ASSETS		
Cash and cash equivalents	\$ 864,479	\$ 608,848
Contributions receivable	38,547	6,526
Prepaid expenses and other assets	25,274	43,261
Investments	20,991,938	23,509,538
Split-interest and other agreements	531,495	643,448
Investments restricted for deferred compensation	205,462	226,302
Property and equipment, net	12,666	4,344
 TOTAL ASSETS	 \$ 22,669,861	 \$ 25,042,267
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 59,442	\$ 58,450
Support payable to Multnomah County Library	409,133	473,468
Deferred compensation	205,462	226,302
Gift annuity payable	3,561	3,894
Total liabilities	677,598	762,114
Net assets:		
Without donor restrictions:		
Available for general operations	145,211	580,863
Board designated	10,746,060	12,100,100
Total without donor restrictions	10,891,271	12,680,963
With expiring donor restrictions	6,187,556	6,763,654
With perpetual donor restrictions	4,913,436	4,835,536
Total net assets with donor restrictions	11,100,992	11,599,190
Total net assets	21,992,263	24,280,153
 TOTAL LIABILITIES AND NET ASSETS	 \$ 22,669,861	 \$ 25,042,267

See notes to financial statements.

THE LIBRARY FOUNDATION
STATEMENT OF ACTIVITIES
For the year ended June 30, 2022
(With comparative totals for 2021)

	2022				2021 Total
	Without Donor Restrictions	With Expiring Donor Restrictions	With Perpetual Donor Restrictions	Total	
Revenues, gains(losses) and other support:					
Private contributions and grants	\$ 511,661	\$ 1,173,588	\$ 142,860	\$ 1,828,109	\$ 2,173,434
Donated assets and services (in-kind)	491	381,565	-	382,056	198,216
Interest and dividend income, net	402,288	116,189	-	518,477	281,730
Change in value of investments	(1,917,673)	(473,133)	-	(2,390,806)	4,286,302
Net change in the value of contributions receivable from split-interest and other agreements	-	(47,671)	(64,960)	(112,631)	109,741
Other	3,237	-	-	3,237	355
Revenues, gains(losses) and other support	(999,996)	1,150,538	77,900	228,442	7,049,778
Net assets released from restrictions	1,726,636	(1,726,636)	-	-	-
Total revenues, gains(losses) and other support	726,640	(576,098)	77,900	228,442	7,049,778
Expenses:					
Direct program support of Multnomah County Library:					
Early literacy	343,704	-	-	343,704	432,462
School-age literacy	1,041,388	-	-	1,041,388	695,598
Learning for life	77,946	-	-	77,946	62,825
Arts, culture and humanities programming	16,330	-	-	16,330	20,579
Books and materials	68,920	-	-	68,920	71,026
Library staff development and other	5,369	-	-	5,369	-
Total direct support	1,553,657	-	-	1,553,657	1,282,490
Program support of Multnomah County Library	594,203	-	-	594,203	581,144
Advocacy	-	-	-	-	221,425
Total program expenses	2,147,860	-	-	2,147,860	2,085,059
Management and general	277,008	-	-	277,008	228,099
Fundraising	91,464	-	-	91,464	70,476
Total expenses	2,516,332	-	-	2,516,332	2,383,634
Change in net assets	(1,789,692)	(576,098)	77,900	(2,287,890)	4,666,144
Net assets:					
Beginning of year	12,680,963	6,763,654	4,835,536	24,280,153	19,614,009
End of year	<u>\$ 10,891,271</u>	<u>\$ 6,187,556</u>	<u>\$ 4,913,436</u>	<u>\$ 21,992,263</u>	<u>\$ 24,280,153</u>

See notes to financial statements.

THE LIBRARY FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2022
(With comparative totals for 2021)

	2022			Total	2021 Total
	Library Support	Management and General	Fundraising		
Direct support of Multnomah County Library	\$ 1,553,657	\$ -	\$ -	\$ 1,553,657	\$ 1,282,490
Salaries and related expenses	426,832	168,820	59,771	655,423	597,278
Professional fees	36,859	55,176	8,447	100,482	298,193
Facilities and technology	59,005	30,675	9,214	98,894	94,639
Printing, postage and supplies	60,499	5,270	12,137	77,906	80,784
Other operating expenses	9,259	16,146	1,618	27,023	26,480
Depreciation	1,749	921	277	2,947	3,770
 Total expenses	 <u>\$ 2,147,860</u>	 <u>\$ 277,008</u>	 <u>\$ 91,464</u>	 <u>\$ 2,516,332</u>	 <u>\$ 2,383,634</u>

See notes to financial statements.

THE LIBRARY FOUNDATION
STATEMENT OF CASH FLOWS
For the year ended June 30, 2022
(With comparative totals for 2021)

	2022	2021
Cash flows from operating activities:		
Cash received from donors and grantors	\$ 1,652,217	\$ 2,057,053
Cash received from investment earnings	567,144	322,783
Cash paid to Multnomah County Library	(1,235,936)	(882,220)
Cash paid to employees and vendors	(986,179)	(1,156,739)
Net cash flows from operating activities	(2,754)	340,877
Cash flows from investing activities:		
Reinvestment of dividend and interest income	(567,144)	(322,783)
Proceeds from sale of investments	5,473,920	8,755,306
Purchases of investments	(4,779,982)	(8,818,697)
Purchases of equipment	(11,269)	-
Net cash flows from investing activities	115,525	(386,174)
Cash flows from financing activities:		
Contributions restricted for long-term investment	142,860	5,710
Net cash flows from financing activities	142,860	5,710
Net change in cash and cash equivalents	255,631	(39,587)
Cash and cash equivalents:		
Beginning of year	608,848	648,435
End of year	\$ 864,479	\$ 608,848

See notes to financial statements.

THE LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

1. DESCRIPTION OF THE FOUNDATION

The Library Foundation (the "foundation") strengthens our community and creates a bright future for our children by supporting, expanding and advocating for Multnomah County Library's innovative and groundbreaking work. Gifts from thousands of individuals, foundations and businesses make this work possible. Since our founding, our supporters have helped the library breathe new life into aging buildings, buy books that capture hearts and minds, and foster a love for reading with tens of thousands of children and families.

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 fourth highest circulation of any public library in the nation, Multnomah County Library reaches more county residents than any other public or private cultural and educational entity.

Last year, more than 190,000 people were reached with programs and books made possible by gifts, large and small, to The Library Foundation. Our supporters helped the library expand 11 programs and initiatives and made more than 120,000 books and materials available. The foundation and the library work together, in a strong partnership, to determine where private funds can have the greatest impact, particularly for children and families facing the risk factors for low literacy. Our work shows just how much a small nonprofit can accomplish together with a great public library.

THE LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022

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.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net Assets Without Donor Restrictions* - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- *Net Assets With Donor Restrictions* - Net assets subject to donor- (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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 net asset value as determined by the general partners. Net appreciation in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) of those investments, is presented in the statement of activities. Security transactions are recorded on a settlement date basis.

Property and Equipment

Acquisitions of property and equipment in excess of \$2,500 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 seven years.

THE LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been 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 without donor restrictions, with expiring restrictions, or with perpetual restrictions support, depending on the existence and/or nature of any donor restrictions. Contributions receivable are reported at the amount management expects to collect on balances outstanding at year-end. 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 support without donor restrictions 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.

In addition, a number of volunteers made significant contributions of their time in the furtherance of the foundation's programs. The value of this contributed time is not reflected in the accompanying financial statements since the recognition criterion has not been met.

THE LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022

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 net assets with perpetual restrictions if the terms of the gift require that they be added to principal of a perpetual endowment.
- As increases in net assets with expiring restrictions if the terms of the gift impose restrictions on the use of income, until released from restriction after appropriation for expenditure.
- As increases in net assets with expiring restrictions if there are no restrictions on the use of income, until after appropriation for expenditure.
- As an increase in net assets without donor restrictions 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 net assets without donor restrictions 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. No provision for income taxes is made in the accompanying financial statements, as the foundation has no activities subject to unrelated business income tax. The Library Foundation is not a private foundation.

The foundation follows the provisions of FASB ASC Topic 740 *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.

Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include salaries and related expenses, a portion of professional fees, facilities and technology, printing, postage and supplies, depreciation and other operating expenses which are allocated on the basis of estimates of time and effort.

THE LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022

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.

Summarized Financial Information for 2021

The financial information as of June 30, 2021, and for the year ended June 30, 2021, is presented for comparative purposes and is not intended to be a complete financial statement presentation.

Change in Accounting Principles and Standards

The foundation has implemented Accounting Standards Update 2020-07, Presentation and Disclosures by Non-Profit Entities for Contributed Nonfinancial Assets (ASU 2020-07) for the year ended June 30, 2022 on a retrospective basis. The standard provides new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. The amendments do not change the recognition and measurement requirements. There was no material impact on the foundation's financial position and change in net assets upon adoption.

Future Accounting Standard

Effective for financial statements for the year ending June 30, 2023, the Foundation expects to adopt a new accounting standard issued by the Financial Accounting Standards Board (FASB) that will require significant changes in accounting for operating leases under which the Foundation is lessee. Upon adoption, among other effects, the Foundation will be required to record assets and liabilities for all operating lease obligations with terms of 12 months or greater. These changes may require certain retrospective adjustments. The qualitative effects on the Foundation's future financial statements of these changes and related retrospective adjustments have not yet been determined.

Subsequent Events

The foundation has evaluated all subsequent events through September 20, 2022, the date the financial statements were available to be issued.

THE LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022

3. AVAILABLE RESOURCES AND LIQUIDITY

The foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the foundation considers all expenditures related to its primary operations to be general expenditures. It excludes financial assets with donor or other restrictions limiting their use and alternative investments and split-interest agreements, which have restrictions limiting their use and redemption. The foundation primarily has cash and cash equivalents, contributions receivable and liquid investments available to manage liquidity.

Financial assets available for general expenditure consist of the following at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 864,479	\$ 608,848
Contributions receivable	38,547	6,526
Estimated distributions from endowment and quasi-endowment	586,000	510,000
Investments	<u>20,991,938</u>	<u>23,509,538</u>
	22,480,964	24,634,912
Less amounts unavailable for general expenditure:		
Net assets with donor restrictions	10,572,664	10,958,231
Board designations	<u>10,746,060</u>	<u>12,100,100</u>
Financial assets available for general expenditure	<u>\$ 1,162,240</u>	<u>\$ 1,576,581</u>

See Note 18 for the foundation's endowment policies which describe the spending rate for both donor-restricted endowments and funds designated by the board as quasi-endowments. While the foundation does not intend to use funds from the board-designated quasi-endowment (other than amounts appropriated for general expenditure as a part of the annual budget approval and appropriation by the Board), board-designated funds could be made available, if necessary, with a majority vote of the Board.

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable represent unsecured and unconditional promises to give. At June 30, 2022 all contributions receivables are due within one year and total \$38,547 (\$6,526 at June 30, 2021).

THE LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022

5. INVESTMENTS

Investments at June 30, 2022 and 2021 consist of:

	2022	2021
Cash equivalents	\$ 108,263	\$ 136,976
Fixed income securities	6,045,898	7,195,248
Equity securities - domestic and global	6,130,884	9,328,295
Equity securities - international	2,542,759	3,621,540
Alternative investments	6,164,134	3,227,479
Total investments	\$ 20,991,938	\$ 23,509,538
Investments held for deferred compensation		
Equity fund	\$ 205,462	\$ 226,302
Total investments for deferred compensation	\$ 205,462	\$ 226,302

Commitments for limited partnership interests not yet funded totaled approximately \$478,000 at June 30, 2022. The Foundation's alternative investments include approximately \$1.6 million of redemptions that were received subsequent to year end.

6. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2022 and 2021 consist of:

	2022	2021
Furniture and equipment	\$ 39,789	\$ 57,355
Less accumulated depreciation	27,123	53,011
Property and equipment, net	\$ 12,666	\$ 4,344

7. 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 contribution with donor restrictions 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 2.78% discount rate and the beneficiary's projected life, the estimated fair value of the amount receivable under this agreement is \$192,008 at June 30, 2022 (\$239,442 at June 30, 2021).

THE LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022

7. SPLIT-INTEREST AND OTHER AGREEMENTS, Continued

Charitable Gift Annuity

The foundation received a charitable gift annuity of \$10,000. Under the terms of the agreement, the donor receives quarterly payments of \$143 over the donor's remaining life. Using a discount rate of 2.5%, the estimated present value of the foundation's liability under this agreement is \$3,561 at June 30, 2022 (\$3,894 at June 30, 2021). Related assets included in split-interest and other agreements total \$976 at June 30, 2022 (\$535 at June 30, 2021).

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 net assets with perpetual donor restrictions. The estimated value of the foundation's interest in the trust was \$338,511 at June 30, 2022 (\$403,471 at June 30, 2021).

8. BOARD DESIGNATED NET ASSETS

As of June 30, 2022, The Library Foundation's Board of Trustees had designated \$10,746,060 (\$12,100,100 as of June 30, 2021) of net assets without donor restrictions as a quasi-endowment fund to provide for the future administration of the foundation and future support of foundation activities (See Note 18).

9. NET ASSETS WITH EXPIRING DONOR RESTRICTIONS

Net assets with expiring donor restrictions at June 30, 2022 and 2021 are restricted either as to purpose or time, as follows:

	2022	2021
Undistributed endowment earnings - with expiring donor restrictions (Note 18)	\$ 1,450,192	\$ 1,884,914
Undistributed endowment earnings - without donor restrictions (Note 18)	488,754	636,789
Split-interest and other agreements	189,817	237,488
Other funds with expiring donor restrictions	4,058,793	4,004,463
Total net assets with expiring restrictions	\$ 6,187,556	\$ 6,763,654

THE LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022

10. NET ASSETS WITH PERPETUAL RESTRICTIONS

As of June 30, 2022, the foundation held \$4,574,925 (\$4,432,065 as of June 30, 2021) as part of its endowment funds. The investment income earned on the balances of these net assets with perpetual donor restrictions is generally restricted as to purpose. Unexpended endowment income is reported as with expiring donor restrictions until appropriated for expenditure (See Note 18).

Also included in net assets with perpetual donor restrictions is the beneficial interest in a perpetual trust totaling \$338,511 at June 30, 2022 (\$403,471 at June 30, 2021) (See Note 18).

11. CONTRIBUTED NONFINANCIAL ASSETS AND SERVICES

The Foundation received the following contributions of nonfinancial assets for the years ended June 30, 2022 and 2021:

	2022	2021
Contributed media:		
Summer Reading	\$ 10,000	\$ 10,000
Everybody Reads	20,755	16,905
Contributed prizes and supplies:		
Summer Reading	343,310	170,187
Other programs	7,991	1,124
Total donated assets and services	\$ 382,056	\$ 198,216

The Foundation receives prizes that are restricted for specific support library programs. Donated prizes are recorded at fair value based on the current cost to acquire the items. Management performs an evaluation of the expected use of the prizes by recipients and discounts the value to the estimated use of the donated items.

The Foundation receives contributed media services to promote library literacy programs. Contributed media services are recorded at their estimated fair value using current market rates from similar vendors and comparable services.

THE LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022

12. SUPPORT OF MULTNOMAH COUNTY LIBRARY

The Library Foundation provided \$2,147,860 in program support for Multnomah County Library’s work during the year ended June 30, 2022, enhancing 11 library programs and 7 different collections. Foundation-supported programs reached more than 190,000 people and made more than 103,000 books and materials available to children, families and adults during this year when the pandemic continued to create stress and challenges. An additional 17,000 books and other materials were added to the permanent collection with foundation support.

Because The Library Foundation leverages Multnomah County Library’s vast reach, expertise and strong partnerships, supporters are able to see tremendous impact from their gifts. Librarians are highly skilled in creating and expanding programs for children and families that operate at a fraction of the cost of standalone organizations. The financial summary of foundation support for Multnomah County Library is shown below:

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

	2022	2021
Cash support:		
Early literacy	\$ 343,329	\$ 432,263
School-age literacy	688,078	514,911
Learning for life	57,191	45,920
Books and materials	61,420	70,601
Arts, culture and humanities programming	16,330	20,579
Library staff development and other	5,253	-
Total cash support	1,171,601	1,084,274
In-kind support (Note 11)*	382,056	198,216
Total direct support	1,553,657	1,282,490
Program services support	594,203	581,144
Advocacy	-	221,425
Total support for the library	\$ 2,147,860	\$ 2,085,059

**92% of in-kind support is incentive prizes for youth participating in Summer Reading (85% in 2021).*

THE LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022

13. CONCENTRATIONS OF CREDIT RISK

The foundation maintains its cash balances at a financial institution and in custodial accounts. The balances held in bank accounts are 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, 2022 total approximately \$635,000 (\$367,600 at June 30, 2021). 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.

14. OPERATING LEASE

The foundation leases office space under a ten-year lease through July 2028. Rent expense was approximately \$51,700 for the year ended June 30, 2022 (\$48,800 in 2021). Base monthly rent is currently \$4,222 with annual increases of 3%. Minimum future lease payments are as follows:

Year ending June 30, 2023	\$	52,100
2024		53,600
2025		55,200
2026		56,900
2027		58,600
Thereafter		<u>65,400</u>
Total	\$	<u><u>341,800</u></u>

15. 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, 2022 and 2021, the foundation contributed an amount equal to 3% of employee's compensation and matched employee contributions up to an additional 3-6%, based on years of service. Contributions to the plan totaled \$37,605 for the year ended June 30, 2022 (\$33,697 in 2021).

THE LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022

16. DEFERRED COMPENSATION

The foundation has a deferred compensation plan covering one employee. The plan is unfunded; however, the foundation maintains investments in a separate account for the plan. All investments in the account are held in domestic mutual funds. (also see Note 16, Fair Value Measurements). 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 \$20,500 for the year ended June 30, 2022 (\$19,500 in 2021).

17. 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 a recurring basis at June 30, 2022 are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 3</u>
Investments:			
Money market funds	\$ 108,263	\$ 108,263	\$ -
Fixed income	5,285,580	5,285,580	-
Fixed income - long term	760,318	760,318	-
Mutual funds - domestic and global	4,385,784	4,385,784	-
Mutual funds - long term - domestic and global	1,951,538	1,951,538	-
Mutual funds - international	1,747,543	1,747,543	-
Mutual funds - long term - international	795,216	795,216	-
Beneficial interests in charitable trusts	192,008	-	192,008
Beneficial interest in perpetual trust	338,511	-	338,511
Total investments at fair value	15,564,761	<u>\$ 15,034,242</u>	<u>\$ 530,519</u>
Investments measured at net asset value:			
Alternative - real estate partnership	1,028,701		
Alternative - private equity and hedge funds	5,135,433		
	<u>\$ 21,728,895</u>		

THE LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022

17. FAIR VALUE MEASUREMENTS, Continued

Fair values of assets measured on a recurring basis at June 30, 2021 are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 3</u>
Investments:			
Money market funds	\$ 136,976	\$ 136,976	
Fixed income	6,196,803	6,196,803	
Fixed income - long term	998,445	998,445	
Mutual funds - domestic	6,559,743	6,559,743	
Mutual funds - long term - domestic	2,995,389	2,995,389	
Mutual funds - international	2,435,632	2,435,632	
Mutual funds - long term - international	1,185,908	1,185,908	
Beneficial interests in charitable trusts	239,442	-	239,442
Beneficial interest in perpetual trust	403,471	-	403,471
Total investments at fair value	21,151,809	<u>\$ 20,508,896</u>	<u>\$ 642,913</u>
Investments measured at NAV:			
Alternative - real estate partnership	971,734		
Alternative - private equity and hedge funds	2,255,745		
	<u>\$ 24,379,288</u>		

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

Fair value for the contribution receivable from charitable remainder trusts is determined using an income approach by calculating the present value of the future distributions to be received using published life expectancy tables and discount rates of 4.2%-6%. Fair value for the beneficial interest in perpetual trust is determined using an income approach by multiplying the total fair value of the trust's assets by the foundation's percentage share as stated in the trust document.

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

Contribution receivable - beneficial interest in charitable remainder trusts:

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	\$ 239,442	\$ 199,307
Distributions	(20,475)	(19,333)
Change in value of split-interest agreements - expiring donor restrictions	(26,959)	59,468
Balance at end of year	<u>\$ 192,008</u>	<u>\$ 239,442</u>

THE LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022

17. FAIR VALUE MEASUREMENTS, Continued

Beneficial interest in perpetual trust:

	2022	2021
Balance at beginning of year	\$ 403,471	\$ 333,608
Change in value of split-interest agreement - perpetual donor restrictions	(64,960)	69,863
Balance at end of year	\$ 338,511	\$ 403,471

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

Investments Measured at Net Asset Value (NAV)

Quoted market prices are not available for limited partnership interests (alternative investments). These investments are recorded based on the net asset value of the foundation's ownership interests in the partners' capital which includes assumptions and methods that were prepared by the General Partners and managers of the entities and were reviewed by foundation's management. The reported net asset value may differ from the value that would be used had the quoted market price existed. The foundation believes that the reported amount for these investments is a reasonable estimate of fair value at June 30, 2022 and 2021.

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

Funds focus on growth in equity, buyout opportunities, or distressed debt. These investments are not readily redeemable; however, a secondary market does exist. Distributions normally are received through the liquidation of the underlying assets in the funds.

Investments measured at NAV consist the of the following investment funds:

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

THE LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022

17. FAIR VALUE MEASUREMENTS, Continued

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

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

There were no changes in the valuation techniques during the years ended June 30, 2022 and 2021.

18. ENDOWMENT

The foundation's endowment consists of 52 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

As a matter of policy, the Board of Trustees of the foundation has preserved the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this policy, the foundation classifies as net assets with perpetual restrictions (a) the original value of gifts donated to the perpetual endowment (b) the original value of subsequent gifts to the perpetual endowment and (c) accumulations to the perpetual 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 net assets with perpetual restrictions is classified as net assets with expiring restrictions 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).

THE LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022

18. ENDOWMENT, Continued

Interpretation of Relevant Law, Continued

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, 2022 and 2021 are as follows:

	Board	<u>Donor-Restricted Endowment</u>		Total
	Designated Quasi- Endowment	With Expiring Restrictions	With Perpetual Restrictions	
June 30, 2022				
Donor-restricted	\$ -	\$ 1,938,946	\$ 4,574,925	\$ 6,513,871
Board-designated	10,746,060	-	-	10,746,060
Included in investments	10,746,060	1,938,946	4,574,925	17,259,931
Beneficial interest in perpetual trust	-	-	338,511	338,511
Total endowment net assets	<u>\$ 10,746,060</u>	<u>\$ 1,938,946</u>	<u>\$ 4,913,436</u>	<u>\$ 17,598,442</u>
June 30, 2021				
Donor-restricted	\$ -	\$ 2,521,703	\$ 4,432,065	\$ 6,953,768
Board-designated	12,100,100	-	-	12,100,100
Included in investments	12,100,100	2,521,703	4,432,065	19,053,868
Beneficial interest in perpetual trust	-	-	403,471	403,471
Total endowment net assets	<u>\$ 12,100,100</u>	<u>\$ 2,521,703</u>	<u>\$ 4,835,536</u>	<u>\$ 19,457,339</u>

THE LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022

18. ENDOWMENT, Continued

Changes in endowment net assets are as follows:

	Board Designated Quasi- Endowment	Donor-Restricted Endowment		Total
		With Expiring Restrictions	With Perpetual Restrictions	
Endowment net assets -				
June 30, 2020	\$ 9,302,702	\$ 1,403,981	\$ 4,759,963	\$ 15,466,646
Contributions	574,614	-	5,710	580,324
Investment return:				
Investment earnings, net	167,575	72,503	-	240,078
Change in value of investments	2,696,209	1,162,794	-	3,859,003
Appropriation of endowment assets for expenditure	(641,000)	(117,575)	-	(758,575)
Change in value of perpetual trust	-	-	69,863	69,863
Total changes	<u>2,797,398</u>	<u>1,117,722</u>	<u>75,573</u>	<u>3,990,693</u>
Endowment net assets -				
June 30, 2021	<u>12,100,100</u>	<u>2,521,703</u>	<u>4,835,536</u>	<u>19,457,339</u>
Contributions	117,290	-	142,860	260,150
Investment return:				
Investment earnings, net	328,761	116,189	-	444,950
Change in value of investments	(1,350,091)	(473,133)	-	(1,823,224)
Appropriation of endowment assets for expenditure	(450,000)	(225,813)	-	(675,813)
Change in value of perpetual trust	-	-	(64,960)	(64,960)
Total changes	<u>(1,354,040)</u>	<u>(582,757)</u>	<u>77,900</u>	<u>(1,858,897)</u>
Endowment net assets -				
June 30, 2022	<u>\$ 10,746,060</u>	<u>\$ 1,938,946</u>	<u>\$ 4,913,436</u>	<u>\$ 17,598,442</u>

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, 2022 and 2021.

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.

THE LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022

18. ENDOWMENT, Continued

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.

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.