

# THE LIBRARY FOUNDATION

*Audited Financial Statements*

*For the Year Ended June 30, 2020*



MCDONALD JACOBS

## 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, 2020, and the related statements of activities, functional expenses, 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, 2020, and 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.

*Report on Summarized Comparative Information*

We have previously audited The Library Foundation's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 17, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*McDonald Jacobz, P.C.*

Portland, Oregon  
September 16, 2020

**THE LIBRARY FOUNDATION**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2020**  
**(With comparative totals for 2019)**

	2020	2019
<b>ASSETS</b>		
Cash and cash equivalents	\$ 648,435	\$ 1,080,310
Contributions receivable, net	8,525	179,901
Prepaid expenses and other assets	26,743	22,606
Investments	18,837,062	18,465,611
Split-interest and other agreements	534,249	563,300
Investments restricted for deferred compensation	143,114	115,796
Property and equipment, net	8,114	14,568
 TOTAL ASSETS	 \$ 20,206,242	 \$ 20,442,092
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 60,599	\$ 44,315
Support payable to Multnomah County Library	271,414	218,000
Deferred compensation	143,114	115,796
Gift annuity payable	4,206	4,500
Refundable advance	112,900	-
Total liabilities	592,233	382,611
Net assets:		
Without donor restrictions:		
Available for general operations	307,579	311,512
Board designated	9,302,702	9,869,863
Total without donor restrictions	9,610,281	10,181,375
With expiring donor restrictions	5,243,765	5,109,297
With perpetual donor restrictions	4,759,963	4,768,809
Total net assets with donor restrictions	10,003,728	9,878,106
Total net assets	19,614,009	20,059,481
 TOTAL LIABILITIES AND NET ASSETS	 \$ 20,206,242	 \$ 20,442,092

See notes to financial statements.

**THE LIBRARY FOUNDATION**  
**STATEMENT OF ACTIVITIES**  
**For the year ended June 30, 2020**  
**(With comparative totals for 2019)**

	2020				2019 Total
	Without Donor Restrictions	With Expiring Donor Restrictions	With Perpetual Donor Restrictions	Total	
<b>Revenues, gains and other support:</b>					
Private contributions and grants	\$ 565,471	\$ 988,890	\$ 8,020	\$ 1,562,381	\$ 1,940,983
Donated assets and services (in-kind)	1,499	212,741	-	214,240	510,841
Interest and dividend income, net	179,825	73,106	-	252,931	369,043
Net (losses) gains on investments	(81,295)	72,839	-	(8,456)	76,544
Net change in the value of contributions receivable from split-interest and other agreements	-	(11,718)	(16,866)	(28,584)	(23,561)
Other	1,021	-	-	1,021	1,249
Revenues, gains and other support	666,521	1,335,858	(8,846)	1,993,533	2,875,099
Net assets released from restrictions	1,201,390	(1,201,390)	-	-	-
Total revenues, gains and other support	1,867,911	134,468	(8,846)	1,993,533	2,875,099
<b>Expenses:</b>					
Direct program support of Multnomah County Library:					
Early literacy	491,889	-	-	491,889	425,857
School-age literacy	477,920	-	-	477,920	818,785
Learning for life	94,062	-	-	94,062	82,527
Arts, culture and humanities programming	25,545	-	-	25,545	27,174
Books and materials	45,634	-	-	45,634	63,444
Library staff development and other	82,848	-	-	82,848	37,781
Total direct support	1,217,898	-	-	1,217,898	1,455,568
Program support of Multnomah County Library					
Advocacy	671,725	-	-	671,725	646,629
Advocacy	241,743	-	-	241,743	260,000
Total program expenses	2,131,366	-	-	2,131,366	2,362,197
Management and general	222,120	-	-	222,120	226,915
Fundraising	85,519	-	-	85,519	86,068
Total expenses	2,439,005	-	-	2,439,005	2,675,180
Change in net assets	(571,094)	134,468	(8,846)	(445,472)	199,919
<b>Net assets:</b>					
Beginning of year	10,181,375	5,109,297	4,768,809	20,059,481	19,859,562
End of year	\$ 9,610,281	\$ 5,243,765	\$ 4,759,963	\$ 19,614,009	\$ 20,059,481

See notes to financial statements.

**THE LIBRARY FOUNDATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the year ended June 30, 2020**  
**(With comparative totals for 2019)**

	2020						2019 Total
	Library Support	Program Advocacy	Total Program	Management and General	Fundraising	Total	
Direct support of Multnomah County Library	\$ 1,217,898	\$ -	\$ 1,217,898	\$ -	\$ -	\$ 1,217,898	\$ 1,455,568
Salaries and related expenses	472,084	1,314	473,398	112,385	44,829	630,612	639,229
Professional fees	47,934	240,000	287,934	57,214	17,453	362,601	369,252
Facilities and technology	73,304	-	73,304	26,284	8,877	108,465	94,253
Printing, postage and supplies	64,954	345	65,299	7,838	12,731	85,868	85,920
Other operating expenses	9,088	84	9,172	16,835	1,101	27,108	23,652
Depreciation	4,361	-	4,361	1,564	528	6,453	7,306
 Total expenses	 <u>\$ 1,889,623</u>	 <u>\$ 241,743</u>	 <u>\$ 2,131,366</u>	 <u>\$ 222,120</u>	 <u>\$ 85,519</u>	 <u>\$ 2,439,005</u>	 <u>\$ 2,675,180</u>

See notes to financial statements.

**THE LIBRARY FOUNDATION**  
**STATEMENT OF CASH FLOWS**  
**For the year ended June 30, 2020**  
**(With comparative totals for 2019)**

	2020	2019
<b>Cash flows from operating activities:</b>		
Cash received from donors and grantors	\$ 1,838,810	\$ 1,860,418
Cash received from investment earnings	287,940	406,844
Cash paid to Multnomah County Library	(950,244)	(895,705)
Cash paid to employees and vendors	<u>(1,236,494)</u>	<u>(1,248,697)</u>
Net cash flows from operating activities	<u>(59,988)</u>	<u>122,860</u>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	-	(6,449)
Reinvestment of dividend and interest income	(287,940)	(406,844)
Proceeds from sale of investments	2,494,991	4,776,101
Purchases of investments	<u>(2,586,958)</u>	<u>(3,943,590)</u>
Net cash flows from investing activities	<u>(379,907)</u>	<u>419,218</u>
<b>Cash flows from financing activities:</b>		
Contributions restricted for long-term investment	<u>8,020</u>	<u>1,625</u>
Net cash flows from financing activities	<u>8,020</u>	<u>1,625</u>
Net change in cash and cash equivalents	(431,875)	543,703
<b>Cash and cash equivalents:</b>		
Beginning of year	<u>1,080,310</u>	<u>536,607</u>
End of year	<u><u>\$ 648,435</u></u>	<u><u>\$ 1,080,310</u></u>

See notes to financial statements.

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

**1. DESCRIPTION OF THE FOUNDATION**

The Library Foundation (the "foundation") strengthens our community and creates a bright future for all of 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 in 1995, 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 145,000 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 75,000 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 for children and adults. 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, 2020

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 five years.

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2020**

**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. 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. The foundation recorded approximately \$54,000 during the year ended June 30, 2020 (\$54,300 in 2019) for contributed media sponsorship and event coordination services, which are included in fundraising and direct support of the library. The foundation also recorded donated goods totaling approximately \$160,300 for the year ended June 30, 2020 (\$456,600 in 2019), 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.

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2020**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Refundable Advance

The Paycheck Protection Program (PPP) loan, guaranteed by the Small Business Administration (SBA), is accounted for as a conditional advance and accrues interest at 1%. The advance may be forgiven partially or in its entirety if certain conditions are met, including incurrence of allowable qualifying expenses (primarily personnel and occupancy costs) and acceptance and approval of the forgiveness application by the lender. Upon satisfaction of the conditions, the advance will be recognized as revenue. The foundation anticipates the full conditional grant to be forgiven during fiscal year 2021.

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 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 LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2020**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Functional Expenses

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. 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.

Summarized Financial Information for 2019

The financial information as of June 30, 2019, and for the year ended June 30, 2019, is presented for comparative purposes and is not intended to be a complete financial statement presentation.

Change in Accounting Principle

The foundation implemented Accounting Standards Update 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists organizations in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The provisions of ASU 2018-08 were implemented applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. There was no significant impact to the foundation's revenue recognition in either year presented for this change in accounting principle.

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 16, 2020, the date the financial statements were available to be issued.

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2020**

**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 limited their use and redemption. The foundation primarily has cash and cash equivalents, contributions receivable and liquid investments available to manage its liquidity.

Financial assets of the foundation consist of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 648,435	\$ 1,080,310
Contributions receivable, net	8,525	179,901
Estimated distributions from endowment and quasi-endowment	517,000	568,000
Investments	<u>18,837,062</u>	<u>18,465,611</u>
	20,011,022	20,293,822
Less amounts unavailable for general expenditure:		
Net assets with donor restrictions	9,472,510	9,668,777
Board designations	<u>9,302,702</u>	<u>9,869,863</u>
Financial assets available for general expenditure	<u>\$ 1,235,810</u>	<u>\$ 755,182</u>

See Note 17 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 as follows at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Contributions receivable:		
Due within one year	\$ 8,750	\$ 170,114
Due in two to five years	<u>-</u>	<u>10,400</u>
Total contributions receivable	8,750	180,514
Less allowance for uncollectible accounts	<u>225</u>	<u>613</u>
Contributions receivable, net	<u>\$ 8,525</u>	<u>\$ 179,901</u>

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2020**

**5. INVESTMENTS**

Investments at June 30, 2020 and 2019 consist of:

	<u>2020</u>	<u>2019</u>
Cash equivalents	\$ 231,178	\$ 171,334
Fixed income securities	6,825,735	5,998,522
Equity securities - domestic	4,682,084	5,233,745
Equity securities - international	4,769,652	4,925,797
Alternative investments	2,328,413	2,136,213
Total investments	<u>\$ 18,837,062</u>	<u>\$ 18,465,611</u>
Investments held for deferred compensation		
Equity fund	<u>\$ 143,114</u>	<u>\$ 115,796</u>
Total investments for deferred compensation	<u>\$ 143,114</u>	<u>\$ 115,796</u>

Commitments for limited partnership interests not yet funded totaled approximately \$396,000 at June 30, 2020.

**6. PROPERTY AND EQUIPMENT**

Property and equipment at June 30, 2020 and 2019 consist of:

	<u>2020</u>	<u>2019</u>
Furniture and equipment	\$ 57,355	\$ 57,355
Less accumulated depreciation	<u>49,241</u>	<u>42,787</u>
Property and equipment, net	<u>\$ 8,114</u>	<u>\$ 14,568</u>

**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 measureable. 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 2.5% discount rate and the beneficiary's projected life, the estimated fair value of the amount receivable under this agreement is \$199,307 at June 30, 2020 (\$210,749 at June 30, 2019).

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2020**

**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 \$4,206 at June 30, 2020 (\$4,500 at June 30, 2019). Related assets included in split-interest and other agreements total \$1,334 at June 30, 2020 (\$2,076 at June 30, 2019).

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 \$333,608 at June 30, 2020 (\$350,475 at June 30, 2019).

**8. BOARD DESIGNATED NET ASSETS**

As of June 30, 2020, The Library Foundation's Board of Trustees had designated \$9,302,702 (\$9,869,863 in 2019) 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 17).

**9. NET ASSETS WITH EXPIRING DONOR RESTRICTIONS**

Net assets with expiring donor restrictions at June 30, 2020 and 2019 are restricted either as to purpose or time, as follows:

	2020	2019
Undistributed endowment earnings - with expiring donor restrictions (Note 17)	\$ 1,054,383	\$ 1,064,278
Undistributed endowment earnings - without donor restrictions (Note 17)	349,598	377,750
Split-interest and other agreements	197,610	209,329
Other funds with expiring donor restrictions	3,642,174	3,457,940
Total net assets with expiring restrictions	\$ 5,243,765	\$ 5,109,297

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2020**

**10. NET ASSETS WITH PERPETUAL RESTRICTIONS**

As of June 30, 2020, the foundation held \$4,426,355 (\$4,418,334 at June 30, 2019) 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 17).

Also included in net assets with perpetual donor restrictions is the beneficial interest in a perpetual trust totaling \$333,608 at June 30, 2020 (\$350,475 at June 30, 2019) (See Note 17).

**11. SUPPORT OF MULTNOMAH COUNTY LIBRARY**

The Library Foundation provided \$2,131,366 in program support for Multnomah County Library's work during the year ended June 30, 2020, enhancing 11 library programs and 7 different collections. Foundation-supported programs reached more than 145,000 people and made more than 65,000 books and materials available to children, families and adults. An additional 10,000 books and other materials were added to the permanent collection with foundation support.

In many communities, literacy programs are implemented by standalone nonprofits 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 effective programs for a fraction of the cost of a standalone organization.

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

Cash support:	
Early literacy	\$ 490,394
School-age literacy	279,680
Learning for life	79,562
Books and materials	45,634
Arts, culture and humanities programming	25,545
Library staff development and other	<u>82,843</u>
Total cash support	1,003,658
In-kind support*	<u>214,240</u>
Total direct support	1,217,898
Program services support	671,725
Advocacy	<u>241,743</u>
Total support for the library	<u><u>\$ 2,131,366</u></u>

\*75% of in-kind support is incentive prizes for youth participating in Summer Reading.

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2020**

**12. 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, 2020 approximated \$675,700 (\$612,600 at June 30, 2019). 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.

**13. OPERATING LEASE**

The foundation leases office space under a ten-year lease through July 2028. Rent expense was approximately \$49,100 for the year ended June 30, 2020 (\$46,900 in 2019). Base monthly rent is currently \$3,980 with annual increases of 3%. Minimum future lease payments are as follows:

Year ending June 30, 2021	\$ 49,100
2022	50,500
2023	52,100
2024	53,600
2025	55,200
Thereafter	<u>180,900</u>
Total	<u>\$ 441,400</u>

**14. 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, 2020 and 2019, 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 \$34,289 for the year ended June 30, 2020 (\$37,942 in 2019).

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2020**

**15. 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 \$19,500 for the year ended June 30, 2020 (\$19,000 in 2019).

**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 a recurring basis at June 30, 2020 are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 3</u>
Investments:			
Fixed income	\$ 5,728,869	\$ 5,728,869	\$ -
Fixed income - long term	1,096,866	1,096,866	-
Mutual funds - domestic	3,567,937	3,567,937	-
Mutual funds - long term - domestic	1,257,261	1,257,261	-
Mutual funds - international	2,915,640	2,915,640	-
Mutual funds - long term - international	1,854,012	1,854,012	-
Beneficial interests in charitable trusts	199,307	-	199,307
Beneficial interest in perpetual trust	333,608	-	333,608
Total investments at fair value	<u>16,953,500</u>	<u>\$ 16,420,585</u>	<u>\$ 532,915</u>
Investments measured at net asset value:			
Alternative - real estate partnership	839,832		
Alternative - private equity and hedge funds	1,488,581		
	<u>\$ 19,281,913</u>		

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2020**

**16. FAIR VALUE MEASUREMENTS, Continued**

Fair values for publically 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 trust:

Balance at beginning of year	\$ 210,749
Distributions	(18,062)
Change in value of split-interest agreement - expiring donor restrictions	<u>6,620</u>
Balance at end of year	<u>\$ 199,307</u>

Beneficial interest in perpetual trust:

Balance at beginning of year	\$ 350,475
Change in value of split-interest agreement - perpetual donor restrictions	<u>(16,867)</u>
Balance at end of year	<u>\$ 333,608</u>

Change in value of split-interest agreements is included in net change in actuarial 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, 2020.

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2020**

**16. FAIR VALUE MEASUREMENTS, Continued**

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.

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 year ended June 30, 2020.

**17. ENDOWMENT**

The foundation's endowment consists of 51 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.

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2020**

**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 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). 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, 2020 is as follows:

	Board	Donor-Restricted Endowment		Total
	Designated Quasi- Endowment	With Expiring Restrictions	With Perpetual Restrictions	
Donor-restricted	\$ -	\$ 1,403,981	\$ 4,426,355	\$ 5,830,336
Board-designated	9,302,702	-	-	9,302,702
Included in investments	9,302,702	1,403,981	4,426,355	15,133,038
Beneficial interest in perpetual trust	-	-	333,608	333,608
Total endowment net assets	<u>\$ 9,302,702</u>	<u>\$ 1,403,981</u>	<u>\$ 4,759,963</u>	<u>\$ 15,466,646</u>

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2020**

**17. ENDOWMENT, Continued**

Changes in endowment net assets for the year ended June 30, 2020 as follows:

	Board Designated	<u>Donor-Restricted Endowment</u>		<u>Total</u>
	Quasi- Endowment	With Expiring Restrictions	With Perpetual Restrictions	
Endowment net assets -				
Beginning of year	\$ 9,869,863	\$ 1,442,028	\$ 4,768,809	\$ 16,080,700
Contributions	237,534	-	8,020	245,554
Investment return:				
Investment earnings, net	133,316	60,486	-	193,802
Change in value of investments	(76,111)	74,450	-	(1,661)
Appropriation of endowment assets for expenditure	(861,900)	(172,983)	-	(1,034,883)
Change in value of perpetual trust	-	-	(16,866)	(16,866)
Total changes	<u>(567,161)</u>	<u>(38,047)</u>	<u>(8,846)</u>	<u>(614,054)</u>
Endowment net assets -				
End of year	<u>\$ 9,302,702</u>	<u>\$ 1,403,981</u>	<u>\$ 4,759,963</u>	<u>\$ 15,466,646</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, 2020 and 2019.

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.

**THE LIBRARY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**June 30, 2020**

**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.

**18. CONTINGENCIES**

The foundation has been negatively impacted by the effects of the world-wide coronavirus pandemic. The foundation is closely monitoring library program operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the foundation's financial position is not known.