



SACRAMENTO PUBLIC LIBRARY FOUNDATION

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2013 and 2012

SACRAMENTO PUBLIC LIBRARY FOUNDATION
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Audit Committee of
Sacramento Public Library Foundation
Sacramento, California

We have audited the accompanying financial statements of Sacramento Public Library Foundation (a nonprofit organization), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sacramento Public Library Foundation as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Mark A. Nelson CPA".

Sacramento, CA
October 1, 2013

SACRAMENTO PUBLIC LIBRARY FOUNDATION
STATEMENT OF FINANCIAL POSITION
 JUNE 30, 2013 and 2012

	2013	2012
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 264,634	\$ 274,578
Cash and cash equivalents - restricted (Note 2)	107,080	46,814
Investments (Note 3) (Note 14)	405,710	363,072
Contributions receivable (Note 5)	36,985	12,200
Total Current Assets	814,409	696,664
Non-Current Assets		
Investments (Note 3)	2,545,359	2,466,797
Fixed Assets (Note 6)		
Equipment and software	9,116	9,116
Less: accumulated depreciation	(9,116)	(8,963)
Total Fixed Assets	-	153
Total Non-Current Assets	2,545,359	2,466,950
Total Assets	\$ 3,359,768	\$ 3,163,614
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 2,022	\$ 6,192
Accrued vacation	5,208	5,971
Other liabilities	1,322	447
Total Current Liabilities	8,552	12,610
Total Liabilities	8,552	12,610
Net Assets (Note 7)		
Unrestricted		
Board designated	1,058,152	1,038,700
Undesignated	504,199	487,453
Temporarily restricted	351,442	225,479
Permanently restricted	1,437,423	1,399,372
Total Net Assets	3,351,216	3,151,004
Total Liabilities and Net Assets	\$ 3,359,768	\$ 3,163,614

The accompanying notes are an integral part of these financial statements.

SACRAMENTO PUBLIC LIBRARY FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenues				
Contributions	\$ 171,559	\$ 120,753	\$ 35,351	\$ 327,663
Special event revenue	98,352	44,350	-	142,702
Less: Direct benefit to donors	(16,250)	-	-	(16,250)
In-kind revenue	46,499	-	-	46,499
Net investment income (loss)	60,740	185,519	2,700	248,959
Other income	<u>11,835</u>	<u>-</u>	<u>-</u>	<u>11,835</u>
Total Support and Revenue	<u>372,735</u>	<u>350,622</u>	<u>38,051</u>	<u>761,408</u>
Net assets released from restriction	<u>224,659</u>	<u>(224,659)</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>597,394</u>	<u>125,963</u>	<u>38,051</u>	<u>761,408</u>
Expenses (Note 1)				
Program services	361,010	-	-	361,010
Fundraising	116,011	-	-	116,011
Management and general	<u>84,175</u>	<u>-</u>	<u>-</u>	<u>84,175</u>
Total Expenses	<u>561,196</u>	<u>-</u>	<u>-</u>	<u>561,196</u>
Change in Net Assets	36,198	125,963	38,051	200,212
Net Assets, July 1, 2012	<u>1,526,153</u>	<u>225,479</u>	<u>1,399,372</u>	<u>3,151,004</u>
Net Assets, June 30, 2013	<u>\$ 1,562,351</u>	<u>\$ 351,442</u>	<u>\$ 1,437,423</u>	<u>\$ 3,351,216</u>

The accompanying notes are an integral part of these financial statements.

SACRAMENTO PUBLIC LIBRARY FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenues				
Contributions	\$ 166,611	\$ 142,905	\$ 1,240	\$ 310,756
Special event revenue	99,418	42,150	-	141,568
Less: Direct benefit to donors	(14,750)	-	-	(14,750)
In-kind revenue	53,210	-	-	53,210
Net investment income (loss)	(7,350)	12,008	-	4,658
Other Income	<u>6,569</u>	<u>-</u>	<u>-</u>	<u>6,569</u>
Total Support and Revenue	<u>303,708</u>	<u>197,063</u>	<u>1,240</u>	<u>502,011</u>
Net assets released from restrictions	<u>260,719</u>	<u>(260,719)</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>564,427</u>	<u>(63,656)</u>	<u>1,240</u>	<u>502,011</u>
Expenses				
Program services	295,228	-	-	295,228
Fundraising	221,256	-	-	221,256
Management and general	<u>130,858</u>	<u>-</u>	<u>-</u>	<u>130,858</u>
Total Expenses	<u>647,342</u>	<u>-</u>	<u>-</u>	<u>647,342</u>
Change in Net Assets				
Before Extraordinary Item	(82,915)	(63,656)	1,240	(145,331)
Net Assets, July 1, 2011	1,609,068	289,135	2,281,172	4,179,375
Extraordinary item (Note 14)	<u>-</u>	<u>-</u>	<u>(883,040)</u>	<u>(883,040)</u>
Net Assets, June 30, 2012	<u>\$ 1,526,153</u>	<u>\$ 225,479</u>	<u>\$ 1,399,372</u>	<u>\$ 3,151,004</u>

The accompanying notes are an integral part of these financial statements.

SACRAMENTO PUBLIC LIBRARY FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	\$ 200,212	\$ (145,331)
Adjustments to reconcile change in net assets to net change in cash from operating activities:		
Depreciation	153	1,823
Unrealized and realized (gains)/losses on investments	(218,273)	32,562
Increase in:		
Contributions receivable	(24,785)	(11,071)
Receivable from split interest agreements	(19,451)	(7,949)
Increase/(decrease) in:		
Accounts payable	(4,170)	5,551
Accrued vacation	(763)	(1,194)
Other liabilities	875	(1,275)
Decrease in Cash from Operating Activities	(66,202)	(126,884)
Cash Flows from Investing Activities		
Purchase of investments	(328,192)	(1,875,846)
Proceeds from sale of investments	444,716	2,732,977
Increase in Cash from Investing Activities	116,524	857,131
Cash Flows from Financing Activities		
Return of Friends of the Library endowment funds	-	(883,040)
Decrease in Cash from Financing Activities	-	(883,040)
Increase (Decrease) in Cash and Cash Equivalents	50,322	(152,793)
Cash and Cash Equivalents, Beginning of Year	321,392	474,185
Cash and Cash Equivalents, End of Year	\$ 371,714	\$ 321,392

The accompanying notes are an integral part of these financial statements.

SACRAMENTO PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 and 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

The Sacramento Public Library Foundation (the Foundation) is a nonprofit public benefit corporation incorporated on June 11, 1984. The Foundation raises funds for the Sacramento Public Library (the Library), a joint powers authority of the City and County of Sacramento.

Basis of Presentation

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

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations and are available for general operations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that are maintained permanently by the Foundation.

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the Foundation considers as cash equivalents all highly liquid investments which can be converted into known amounts of cash and have a maturity period of 3 months or less at the time of purchase.

Investments

Investments are carried at estimated fair market value on the statement of financial position. Fair values of investments are estimated based on quoted market prices where available. The fair value of the charitable remainder trust is estimated based on estimated future cash flows using a discount rate of 8.5%. The fair value of the beneficial interest in assets held by others is estimated using the amortized cost basis which is provided by the Sacramento Region Community Foundation.

Beneficial Interest in Assets Held by Others

A portion of the Sacramento Room Endowment is held in pooled investment accounts of the Sacramento Region Community Foundation.

Fixed Assets

Equipment is recorded at acquisition cost, or at estimated fair market value as of the date of donation. Depreciation expense is provided on a straight-line basis over the estimated useful life of the respective asset, ranging from 5 to 7 years. Maintenance and repairs are charged to expenses as incurred. Renewals and betterments over \$1,000, which extend the useful lives of assets, are capitalized.

SACRAMENTO PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 and 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

All contributions are considered available for the Foundation's general programs unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor are reported as temporarily or permanently restricted support and increase the respective class of net assets. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets. Investment income that is limited to specific uses by donor restrictions is reported as increases in unrestricted net assets if the restrictions are met in the same reporting period as the income is recognized.

In-kind Contributions and Contributed Services

In-kind contributions are reflected as contributions at their estimated fair value at date of donation and are reported as unrestricted support unless explicit donor stipulations specify how donated assets must be used. Contributions of tangible assets are recorded at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or assets.

Functional Expense Classifications

The costs of providing programs and other activities have been summarized on a functional basis in the Statement of Activities based upon detailed estimates prepared by management. During the current year management made changes to the functional allocation methodology and certain costs are now being allocated to program services rather than fundraising.

Income Taxes

The Foundation, pursuant to a determination letter from the Internal Revenue Service, is exempt from Federal and State income taxes under Section 501(c)(3) of the Internal Revenue code and Section 23701(d) of the California Revenue and Taxation Code.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities at June 30, 2013 and June 30, 2012.

Subsequent Events

Subsequent events have been evaluated through October 1, 2013, which is the date the financial statements were issued.

Use of Estimates

Management is required to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

SACRAMENTO PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 and 2012

NOTE 2: CASH AND CASH EQUIVALENTS

The balance in cash and cash equivalents at June 30, 2013 and June 30, 2012 consisted of the following:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Bank accounts	\$ 145,842	\$ 165,791
Petty cash	191	358
Other deposits	39,782	21,684
Money market accounts held at commercial banks	42,983	68,428
Money market accounts held in investments	<u>142,916</u>	<u>65,131</u>
 Total cash and cash equivalents	 <u>371,714</u>	 <u>321,392</u>
 Cash and cash equivalents	 264,634	 274,578
Cash and cash equivalents - restricted	<u>107,080</u>	<u>46,814</u>
	 <u>\$ 371,714</u>	 <u>\$ 321,392</u>

The Foundation maintains bank accounts at several financial institutions. As of June 30, 2013 the Foundation's total bank balance was \$376,901 of which \$194,203 were fully insured. At June 30, 2012 the Foundation's total bank balance was \$329,346 of which \$242,530 were fully insured.

SACRAMENTO PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 and 2012

NOTE 3: INVESTMENTS

Investment securities are reported in the financial statements at fair market value and consisted of the following at June 30, 2013 and June 30, 2012:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Common stocks	\$ 91,693	\$ 86,564
Municipal and corporate bonds	16,531	16,979
Mutual funds	<u>297,486</u>	<u>259,529</u>
Total current investments	<u>405,710</u>	<u>363,072</u>
Permanent endowments:		
Common stocks	\$ 525,213	\$ 551,648
Municipal and corporate bonds	66,128	67,917
Mutual funds	<u>1,507,746</u>	<u>1,428,200</u>
Total permanent endowments	<u>2,099,087</u>	<u>2,047,765</u>
Beneficial interest in assets held by others	149,549	141,760
Receivable - beneficial interest in charitable remainder trust (Note 11)	<u>296,723</u>	<u>277,272</u>
Total non-current investments	<u>\$ 2,545,359</u>	<u>\$ 2,466,797</u>

The following schedule summarizes the investment activity reported in the statement of activities:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Interest and dividends	\$ 81,265	\$ 87,416
Unrealized gains (losses)	132,038	11,469
Realized gains (losses)	86,235	(44,031)
Investment fees	<u>(50,579)</u>	<u>(50,196)</u>
	<u>\$ 248,959</u>	<u>\$ 4,658</u>

SACRAMENTO PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 and 2012

NOTE 4: FAIR VALUE MEASUREMENTS

The following tables set forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2013 and June 30, 2012.

Assets at Fair Value as of June 30, 2013

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Mutual funds	\$ 1,805,232	\$ -	\$ -	\$ 1,805,232
Common stocks	616,906	-	-	616,906
Municipal and corporate bonds	82,659	-	-	82,659
Beneficial interest in assets held by others	-	-	149,549	149,549
Receivable - beneficial interest in charitable remainder trust	-	-	<u>296,723</u>	<u>296,723</u>
Total assets at fair value	<u>\$ 2,504,797</u>	<u>\$ -</u>	<u>\$ 446,272</u>	<u>\$ 2,951,069</u>

Assets at Fair Value as of June 30, 2012

	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 1,687,729	\$ -	\$ -	\$ 1,687,729
Common stocks	638,212	-	-	638,212
Municipal and Corporate bonds	84,896	-	-	84,896
Beneficial interest in assets held by others	-	-	141,760	141,760
Receivable - beneficial interest in charitable remainder trust	-	-	<u>277,272</u>	<u>277,272</u>
Total assets at fair value	<u>\$ 2,410,837</u>	<u>\$ -</u>	<u>\$ 419,032</u>	<u>\$ 2,829,869</u>

SACRAMENTO PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 and 2012

NOTE 4: FAIR VALUE MEASUREMENTS (CONTINUED)

The table below sets forth a summary of changes in the fair value of the Foundation's significant unobservable inputs (level 3) for the years ended June 30, 2013 and June 30, 2012.

Level 3 Assets as of June 30, 2013		
	Receivable- beneficial interest in charitable remainder trust	Beneficial interest in assets held by others
Balance, beginning of year	\$ 277,272	\$ 141,760
Relating to instruments still held at the reporting date:		
Unrealized gains reported as temporarily restricted contributions on the statement of activities	19,451	-
Unrealized gains included in investment income	-	7,789
Balance, end of year	\$ 296,723	\$ 149,549

Level 3 Assets as of June 30, 2012		
	Receivable- beneficial interest in charitable remainder trust	Beneficial interest in assets held by others
Balance, beginning of year	\$ 269,323	\$ 149,397
Relating to instruments still held at the reporting date:		
Unrealized gains reported as temporarily restricted contributions on the statement of activities	7,949	-
Unrealized losses included in investment income	-	(7,637)
Balance, end of year	\$ 277,272	\$ 141,760

Financial assets valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Fair value for the contribution receivable from a beneficial interest in a charitable remainder trust (level 3) is determined by calculating the present value of the future distributions expected to be received and a 8.5% discount rate. The fair value of the beneficial interest in assets held by others is estimated using the amortized cost basis which is provided by the Sacramento Region Community Foundation. There have been no changes in valuation techniques and related inputs.

SACRAMENTO PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 and 2012

NOTE 5: CONTRIBUTIONS RECEIVABLE

Contributions receivable are due as follows:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Receivable in less than one year	\$ 36,985	\$ 7,200
Receivable in one to two years	<u>-</u>	<u>5,000</u>
	<u>\$ 36,985</u>	<u>\$ 12,200</u>

Unconditional promises to give with due dates extending beyond one year have been evaluated using a discount rate of 4.3%. The discount amount calculated was not material to the financial statements as of June 30, 2013 and no discount has been recorded in the SPLF financial statements. Management has determined that the unconditional promises to give are fully collectible. Therefore, no allowance for uncollectible accounts are considered necessary at June 30, 2013 and 2012.

NOTE 6: FIXED ASSETS

Fixed assets consisted of the following:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Depreciable assets - unrestricted		
Equipment and software	\$ <u>9,116</u>	\$ <u>9,116</u>
Less: Accumulated depreciation	<u>(9,116)</u>	<u>(8,963)</u>
Property and equipment, net	<u>\$ -</u>	<u>\$ 153</u>

Depreciation expense for the years ended June 30, 2013 and 2012 was \$153 and \$1,823, respectively.

SACRAMENTO PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 and 2012

NOTE 7: NET ASSETS

Designated and Restricted net assets at June 30, 2013 consisted of the following:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Books and Materials	\$ 124,211	\$ 233,203	\$ 800,983	\$ 1,158,397
Sacramento Room	394,282	51,998	595,193	1,041,473
Scholarship	-	-	28,247	28,247
Persian Collection	-	-	13,000	13,000
Legacy of Learning	-	100	-	100
Schwab Rosenhouse	-	501	-	501
Wonder Wagon	17,811	31,721	-	49,532
Branches	-	9,256	-	9,256
Read & Feed Garden	-	18,050	-	18,050
Finra Grant	-	3,522	-	3,522
Time Restricted	296,723	-	-	296,723
Reserves	225,125	-	-	225,125
Children's Materials	-	514	-	514
Literacy	-	985	-	985
Early Childhood Development	-	1,242	-	1,242
Library Operations	-	350	-	350
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Net Assets	<u>\$ 1,058,152</u>	<u>\$ 351,442</u>	<u>\$ 1,437,423</u>	<u>\$ 2,847,017</u>

Designated and Restricted net assets at June 30, 2012 consisted of the following:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Books and materials	\$ 124,211	\$ 184,683	\$ 800,143	\$ 1,109,037
Sacramento Room	394,282	2,394	561,229	957,905
Scholarship	-	547	25,000	25,547
Persian Collection	-	-	13,000	13,000
Legacy of Learning	-	100	-	100
Schwab Rosenhouse	-	501	-	501
Wonder Wagon	17,811	22,407	-	40,218
Read & Feed Garden	-	10,000	-	10,000
Finra Grant	-	3,522	-	3,522
Time restricted	277,271	-	-	277,271
Reserves	225,125	-	-	225,125
Children's Materials	-	340	-	340
Literacy	-	985	-	985
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Net Assets	<u>\$ 1,038,700</u>	<u>\$ 225,479</u>	<u>\$ 1,399,372</u>	<u>\$ 2,663,551</u>

SACRAMENTO PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 and 2012

NOTE 7: NET ASSETS (CONTINUED)

Net assets were released from restrictions by incurring expenses satisfying the purpose restrictions as follows:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Books and materials	\$ 46,996	\$ 60,318
Sacramento Room	46,410	29,248
Legacy of Learning	8,000	-
Central Branch	-	45,530
Wonder wagon	1,000	-
Summer Reading	60,400	55,150
Branch libraries	39,620	43,022
Lucky Day	-	22,451
Read & Feed Garden	14,950	5,000
Early Childhood Development	<u>7,283</u>	<u>-</u>
Net assets released from restriction	<u>\$ 224,659</u>	<u>\$ 260,719</u>

NOTE 8: DONOR-DESIGNATED ENDOWMENTS - AFTER IMPLEMENTATION OF FASB ASC 958-205-50

The Foundation's endowments consist of 4 individual funds established for a variety of purposes. The Foundation's endowments include both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of 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 interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, 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 various funds, (2) the purposes of the donor-restricted endowment funds, (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, and (7) the Foundation's investment policies.

Investment Return Objectives, Risk Parameters and Strategies

The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity securities and mutual funds, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution, while growing the funds, if possible. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

SACRAMENTO PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2013 and 2012

**NOTE 8: DONOR -DESIGNATED ENDOWMENTS - AFTER IMPLEMENTATION OF FASB ASC 958-205-50
 (CONTINUED)**

Spending Policy

The Foundation has two spending policies. One policy is for the Sacramento Room Endowment and the other policy is for the Books and Materials Endowment. The Sacramento Room Endowment spending policy states that the distribution rate is derived by taking the last 10-year average endowment portfolio return and subtracting the last years inflation rate for the U.S. Education and Communication CPI Index for All Urban Users as reported by the U.S. Department of Labor Bureau of Labor Statistics. Beginning for the year ended June 30, 2012 the annual distribution of funds will be based on a rolling three-year average of the market value of the endowment at the close of each fiscal year on June 30th. If the scheduled disbursement would cause the Endowment's market value to fall below the Endowment's most recently established base value, the disbursement shall be reconsidered by the Foundation's Finance Committee and Board of Directors.

The Foundation's Books and Materials Endowment spending policy is part of a Memorandum Of Understanding (MOU) between the Friends of the SPL, SPL and the SPL Foundation and establishes an annual disbursement of funds based upon a fixed 6% rolling three-year average of the market value of the endowment. Per the MOU if the scheduled disbursement would cause the Endowment's market value to fall below the Endowment's most recently established base value, the disbursement would be reduced to an amount that will maintain the established base value.

Endowment Net Asset Composition by Type of Fund as of June 30, 2013 was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ -	\$ 285,201	\$ 1,437,423	\$ 1,722,624
Board-designated endowment funds	<u>518,493</u>	<u>-</u>	<u>-</u>	<u>518,493</u>
Total funds	<u>\$ 518,493</u>	<u>\$ 285,201</u>	<u>\$ 1,437,423</u>	<u>\$ 2,241,117</u>

Changes in endowment net assets during the year ended June 30, 2013 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ 518,493	\$ 187,624	\$ 1,399,372	\$ 2,105,489
Contributions	-	5,464	35,351	40,815
Net appreciation (depreciation)	-	185,519	2,700	188,219
Amount appropriated for expenditure	<u>-</u>	<u>(93,406)</u>	<u>-</u>	<u>(93,406)</u>
Endowment net assets, end of year	<u>\$ 518,493</u>	<u>\$ 285,201</u>	<u>\$ 1,437,423</u>	<u>\$ 2,241,117</u>

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NOTE 8: DONOR -DESIGNATED ENDOWMENTS - AFTER IMPLEMENTATION OF FASB ASC 958-205-50 (CONTINUED)

Endowment Net Asset Composition by Type of Fund as of June 30, 2012 was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ -	\$ 187,624	\$ 1,399,372	\$ 1,586,996
Board-designated endowment funds	<u>518,493</u>	<u>-</u>	<u>-</u>	<u>518,493</u>
Total funds	<u>\$ 518,493</u>	<u>\$ 187,624</u>	<u>\$ 1,399,372</u>	<u>\$ 2,105,489</u>

Changes in endowment net assets as of June 30, 2012 was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ 563,862	\$ 232,601	\$ 2,281,172	\$ 3,077,635
Contributions	-	7,735	1,240	8,975
Net appreciation (depreciation)	(45,369)	36,854	-	(8,515)
Amount appropriated for expenditure	-	(89,566)	-	(89,566)
Return of Friends of the Library Endowment Funds	<u>-</u>	<u>-</u>	<u>(883,040)</u>	<u>(883,040)</u>
Endowment net assets, end of year	<u>\$ 518,493</u>	<u>\$ 187,624</u>	<u>\$ 1,399,372</u>	<u>\$ 2,105,489</u>

NOTE 9: TRANSACTIONS WITH THE LIBRARY

The Foundation occupies space in the Library's central location without charge. In-kind contributions from the Library for rent and technology equipment for the years, ended June 30, 2013 and 2012 totaled \$34,068 and \$37,655, respectively.

Since the Foundation's purpose is to support projects of the Library, substantially all program services relate to payments to or on behalf of the Library.

SACRAMENTO PUBLIC LIBRARY FOUNDATION
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NOTE 10: IN-KIND CONTRIBUTIONS

During the years ended June 30, 2013 and 2012, the Foundation received the following non-cash donations of materials, services, and free use of facilities that have been reflected in the financial statements of the Foundation:

	2013	2012
Management and general:		
Computer support services	\$ 13,005	\$ 14,100
Copier costs	500	500
IT support	851	1,089
Use of facilities	14,112	14,112
Telephone equipment	2,400	2,400
Meeting space	450	-
Fundraising:		
Facility services	3,200	3,294
Graphic support services	-	2,160
Special event donations	11,981	15,555
	\$ 46,499	\$ 53,210

NOTE 11: SPLIT INTEREST AGREEMENTS

Charitable Remainder Trust

The Foundation is a beneficiary of a charitable remainder trust. The agreement provides that the Library will receive 10% of the trust assets upon the sooner of the expiration of 20 years or the death of the last to die of the income beneficiaries. The beneficial interest in the assets of the trust, which consist principally of stock in a closely-held corporation, is recorded at market value as determined by an independent appraisal, discounted at 8.5%. The increase in the present value of the Foundation's interest in the trust totaled \$19,451 and \$7,949 during the years ended June 30, 2013 and 2012, respectively. The expected date of the gift is December 31, 2020.

NOTE 12: EMPLOYEE BENEFIT PLAN

The Foundation has a Savings Incentive Match Plan for Employees of Small Employers (the Plan). The Plan covers all employees. Under the terms of the Plan, the Foundation matches employee contributions dollar for dollar up to a maximum of 3% of compensation. Total contributions for the years ended June 30, 2013 and 2012 totaled \$3,515 and \$3,816, respectively.

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NOTE 13: COLLECTION OF ARTWORK

The Foundation has a collection of artwork, appraised at approximately \$4,000,000, that is on public display. The Foundation has adopted a policy of not capitalizing the collection of artwork in its financial statements. Accordingly, no collection items are recognized as assets, whether they are purchased or received as a donation. Purchases of collection items reduce net assets in the period when purchased. Proceeds from insurance recoveries are recorded as increases in net assets when received. The artwork is not allowed to be sold.

NOTE 14: EXTRAORDINARY ITEM

On December 2, 2011 The Sacramento Public Library Foundation (SPLF) was legally required to transfer a portion, totaling \$883,040, of the Books and Materials Endowment back to the Friends of the Sacramento Public Library (Friends). This transfer was at the request of the Friends Board of Directors which the SPLF honored. In May and June of 2009, the Friends transferred a total of \$821,211 for the purpose of having the SPLF manage the assets. Proceeds were designated to the SPLF Book & Materials Endowment. On November 30, 2011 the SPLF Board of Directors discussed the Friends request and SPLF's financial treatment of the return of the endowment assets. On December 2, 2011 the value of the original transfer was assessed to a present value at \$883,040. Endowment funds totaling \$883,040 were transferred to the bank account that the Friends designated for receipt of the funds on December 2, 2011 at which time the SPLF relinquished all responsibilities for the management, accounting, or endowment responsibilities of these assets.