

***THE SEATTLE PUBLIC LIBRARY FOUNDATION***

Financial Statements

For the Years Ended  
December 31, 2012 and 2011

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***Independent Auditors' Report******Board of Directors  
The Seattle Public Library Foundation  
Seattle, Washington***

We have audited the accompanying financial statements of The Seattle Public Library Foundation (the Foundation), which comprise the statement of financial position as of December 31, 2012, and the related statement of activities and changes in net assets 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.

***Auditors' 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 audits 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 auditors' 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.

# CLARK NUBER

## *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

## *Other Matter*

The financial statements of the Foundation as of December 31, 2011, were audited by other auditors, whose report dated May 29, 2012, expressed an unmodified opinion on these financial statements.



Certified Public Accountants  
May 1, 2013

**THE SEATTLE PUBLIC LIBRARY FOUNDATION**

**Statements of Financial Position  
December 31, 2012 and 2011**

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|  | <u>2012</u>                 | <u>2011</u>                 |
|--|-----------------------------|-----------------------------|
| <b>Assets</b>  |                             |                             |
| Cash and cash equivalents                                    | \$ 3,092,316                | \$ 2,455,280                |
| Promises to give, net  | 87,442                      | 2,976,119                   |
| Prepaid expenses and other assets                            | 11,428                      | 14,031                      |
| Investments  | 53,070,453                  | 45,204,025                  |
| Split interest agreement                                     | 145,000                     | 129,000                     |
| Beneficial interest in assets held by The Seattle Foundation | 2,864,755                   | 2,649,491                   |
| Equipment, net   | <u>3,548</u>                | <u>243</u>                  |
| <b>Total Assets</b>  | <b><u>\$ 59,274,942</u></b> | <b><u>\$ 53,428,189</u></b> |
| <b>Liabilities and Net Assets</b>                            |                             |                             |
| <b>Liabilities:</b>  |                             |                             |
| Accounts payable and accrued liabilities                     | \$ 227,884                  | \$ 164,028                  |
| Grants payable to The Seattle Public Library                 | <u>1,806,594</u>            | <u>1,508,568</u>            |
| <b>Total Liabilities</b>                                     | <b>2,034,478</b>            | <b>1,672,596</b>            |
| <b>Net Assets:</b>   |                             |                             |
| Unrestricted   | 18,280,098                  | 15,760,031                  |
| Temporarily restricted                                       | 11,942,314                  | 9,106,179                   |
| Permanently restricted                                       | <u>27,018,052</u>           | <u>26,889,383</u>           |
| <b>Total Net Assets</b>                                      | <b><u>57,240,464</u></b>    | <b><u>51,755,593</u></b>    |
| <b>Total Liabilities and Net Assets</b>                      | <b><u>\$ 59,274,942</u></b> | <b><u>\$ 53,428,189</u></b> |

See accompanying notes.

**THE SEATTLE PUBLIC LIBRARY FOUNDATION**

**Statements of Activities and Changes in Net Assets  
For the Years Ended December 31, 2012 and 2011**

|   | 2012                 |                        |                        |                      | 2011                 |                        |                        |                      |
|---|----------------------|------------------------|------------------------|----------------------|----------------------|------------------------|------------------------|----------------------|
|   | Unrestricted         | Temporarily Restricted | Permanently Restricted | Total                | Unrestricted         | Temporarily Restricted | Permanently Restricted | Total                |
| <b>Support and Revenue:</b>   |                      |                        |                        |                      |                      |                        |                        |                      |
| Contributions   | \$ 3,332,236         | \$ 748,886             | \$ 128,669             | \$ 4,209,791         | \$ 3,881,565         | \$ 482,674             | \$ 17,694              | \$ 4,381,933         |
| In-kind contributions   | 105                  | 495,426                |                        | 495,531              | 20,310               | 566,263                |                        | 586,573              |
| Investment earnings   | 1,340,163            | 4,396,918              |                        | 5,737,081            | 389,199              | 64,752                 |                        | 453,951              |
| <b>Total Support and Revenue Before<br/>Net Assets Released from Restrictions</b> | <b>4,672,504</b>     | <b>5,641,230</b>       | <b>128,669</b>         | <b>10,442,403</b>    | <b>4,291,074</b>     | <b>1,113,689</b>       | <b>17,694</b>          | <b>5,422,457</b>     |
| <b>Net Assets Released from Restrictions:</b>                                     |                      |                        |                        |                      |                      |                        |                        |                      |
| Satisfaction of purpose restrictions  | 2,777,165            | (2,777,165)            |                        |                      | 2,631,247            | (2,631,247)            |                        |                      |
| Satisfaction of time restrictions   | 27,930               | (27,930)               |                        |                      | 171,310              | (171,310)              |                        |                      |
| <b>Total Support and Revenue</b>  | <b>7,477,599</b>     | <b>2,836,135</b>       | <b>128,669</b>         | <b>10,442,403</b>    | <b>7,093,631</b>     | <b>(1,688,868)</b>     | <b>17,694</b>          | <b>5,422,457</b>     |
| <b>Expenses:</b>  |                      |                        |                        |                      |                      |                        |                        |                      |
| Grants made to The Seattle Public Library-  |                      |                        |                        |                      |                      |                        |                        |                      |
| Collections and resources   | 1,605,502            |                        |                        | 1,605,502            | 1,561,297            |                        |                        | 1,561,297            |
| Collections and resources - In-kind   |                      |                        |                        |                      | 34,251               |                        |                        | 34,251               |
| Library programs and marketing  | 1,203,644            |                        |                        | 1,203,644            | 1,112,715            |                        |                        | 1,112,715            |
| Library programs and marketing - In-kind  | 519,866              |                        |                        | 519,866              | 504,596              |                        |                        | 504,596              |
| Capital improvements  | 587,005              |                        |                        | 587,005              | 557,966              |                        |                        | 557,966              |
| Capital improvements - In-kind  |                      |                        |                        |                      | 2,486                |                        |                        | 2,486                |
| Other   | 221,644              |                        |                        | 221,644              | 275,952              |                        |                        | 275,952              |
| Other - In-kind   | 105                  |                        |                        | 105                  | 19,310               |                        |                        | 19,310               |
| <b>Total Program Expenses</b>   | <b>4,137,766</b>     |                        |                        | <b>4,137,766</b>     | <b>4,068,573</b>     |                        |                        | <b>4,068,573</b>     |
| Management and general  | 571,700              |                        |                        | 571,700              | 403,757              |                        |                        | 403,757              |
| Fundraising   | 248,066              |                        |                        | 248,066              | 289,071              |                        |                        | 289,071              |
| <b>Total Expenses</b>   | <b>4,957,532</b>     |                        |                        | <b>4,957,532</b>     | <b>4,761,401</b>     |                        |                        | <b>4,761,401</b>     |
| <b>Change in Net Assets</b>   | <b>2,520,067</b>     | <b>2,836,135</b>       | <b>128,669</b>         | <b>5,484,871</b>     | <b>2,332,230</b>     | <b>(1,688,868)</b>     | <b>17,694</b>          | <b>661,056</b>       |
| Net assets, beginning of year   | 15,760,031           | 9,106,179              | 26,889,383             | 51,755,593           | 13,427,801           | 10,795,047             | 26,871,689             | 51,094,537           |
| <b>Net Assets, End of Year</b>  | <b>\$ 18,280,098</b> | <b>\$ 11,942,314</b>   | <b>\$ 27,018,052</b>   | <b>\$ 57,240,464</b> | <b>\$ 15,760,031</b> | <b>\$ 9,106,179</b>    | <b>\$ 26,889,383</b>   | <b>\$ 51,755,593</b> |

See accompanying notes.

**THE SEATTLE PUBLIC LIBRARY FOUNDATION**

**Statements of Cash Flows**

**For the Years Ended December 31, 2012 and 2011**

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|   | <u>2012</u>                | <u>2011</u>                |
|---|----------------------------|----------------------------|
| <b>Operating Activities:</b>  |                            |                            |
| Cash received from-   |                            |                            |
| Donors  | \$ 7,116,417               | \$ 1,451,350               |
| Investments   | 1,122,136                  | 1,141,425                  |
| Cash paid for-  |                            |                            |
| The Seattle Public Library grants   | (3,319,769)                | (3,001,447)                |
| Services and supplies, including general and administrative expenses paid to The Seattle Public Library | <u>(758,515)</u>           | <u>(695,781)</u>           |
| <b>Net Cash Provided (Used) by Operating Activities</b>   | <b>4,160,269</b>           | <b>(1,104,453)</b>         |
| <b>Investing Activities:</b>  |                            |                            |
| Purchase of investments   | (15,060,764)               | (12,126,347)               |
| Proceeds from sale of investments   | 11,412,805                 | 13,755,792                 |
| Purchase of equipment   | <u>(3,943)</u>             | <u></u>                    |
| <b>Net Cash (Used) Provided by Investing Activities</b>   | <b>(3,651,902)</b>         | <b>1,629,445</b>           |
| <b>Financing Activities:</b>  |                            |                            |
| Cash received for endowment contributions   | <u>128,669</u>             | <u>26,711</u>              |
| <b>Net Cash Provided by Financing Activities</b>  | <b>128,669</b>             | <b>26,711</b>              |
| <b>Change in Cash and Cash Equivalents</b>  | <b>637,036</b>             | <b>551,703</b>             |
| Cash and cash equivalents, beginning of year  | <u>2,455,280</u>           | <u>1,903,577</u>           |
| <b>Cash and Cash Equivalents, End of Year</b>   | <b><u>\$ 3,092,316</u></b> | <b><u>\$ 2,455,280</u></b> |

See accompanying notes.

**THE SEATTLE PUBLIC LIBRARY FOUNDATION**

**Statements of Cash Flows (Continued)**

**For the Years Ended December 31, 2012 and 2011**

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|   | <u>2012</u>                | <u>2011</u>                  |
|---|----------------------------|------------------------------|
| <b>Operating Activities:</b>  |                            |                              |
| Change in net assets  | \$ 5,484,871               | \$ 661,056                   |
| Adjustments to reconcile change in net assets to net cash provided by operating activities-         |                            |                              |
| Realized and unrealized (gain) loss on investments  | (4,128,910)                | 601,413                      |
| Realized and unrealized (gain) loss on beneficial interest in assets held by The Seattle Foundation | (291,302)                  | 86,061                       |
| Donated investments   | (29,521)                   | (47,640)                     |
| Depreciation  | 638                        | 463                          |
| In-kind contributions   | (495,531)                  | (586,573)                    |
| In-kind contributions to The Seattle Public Library   | 519,971                    | 560,643                      |
| Other non-cash revenue  | (24,440)                   | (2,000)                      |
| Endowment contributions   | (128,669)                  | (17,694)                     |
| Changes in assets and liabilities:  |                            |                              |
| Promises to give, net   | 2,888,677                  | (2,865,249)                  |
| Prepaid expenses and other assets   | 2,603                      | 858                          |
| Accounts payable and accrued liabilities  | 63,856                     | (34,009)                     |
| Grants payable to The Seattle Public Library  | 298,026                    | 538,218                      |
| <b>Net Cash Provided (Used) by Operating Activities</b>   | <b><u>\$ 4,160,269</u></b> | <b><u>\$ (1,104,453)</u></b> |

See accompanying notes.



## ***THE SEATTLE PUBLIC LIBRARY FOUNDATION***

### ***Notes to Financial Statements***

***For the Years Ended December 31, 2012 and 2011***

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#### ***Note 1 - Organization and Significant Accounting Policies***

**Organization** - The Seattle Public Library Foundation (the Foundation) helps The Seattle Public Library (the Library) build its collection and resources, offer programs for patrons of all ages, and better serve the needs of our community. The Foundation secures and manages contributions from individuals, businesses, and foundations to support the Library above and beyond what public funding provides.

The Foundation is a not-for-profit corporation established in 1980 and is governed by a volunteer Board of Directors. A professional staff raises and administers gifts and ensures the effectiveness of funded programs.

Since its founding, the Foundation has raised more than \$100 million for the Library to support:

- Building new and revitalized libraries in every neighborhood
- Programming for children, teens and adults
- Books and materials, including support for special collections
- Services for those with special needs, such as the disabled, immigrants and refugees
- Technology resources for library patrons.

**Basis of Presentation** - The Foundation's financial statements have been prepared on the accrual basis of accounting. The Foundation classifies net assets, revenues, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions. Net assets are classified as unrestricted, temporarily restricted, and permanently restricted.

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category include unrestricted contributions, investment earnings that are not donor-restricted and expenses associated with grants made to the Library and the operating activities of the Foundation. The Board has also established a Board-designated endowment (quasi-endowment) which is included in this category.

Temporarily Restricted Net Assets - Net assets restricted by donors to be used for certain purposes or future periods.

Permanently Restricted Net Assets - Endowment gifts with donor-imposed restrictions that the corpus be maintained permanently by the Foundation.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets.

**Revenue Recognition** - Contributions are recognized in the period received, including unconditional promises to give when made, at their fair value. Conditional promises to give are recognized when the conditions on which the promises depend are substantially met.

## ***THE SEATTLE PUBLIC LIBRARY FOUNDATION***

### ***Notes to Financial Statements***

***For the Years Ended December 31, 2012 and 2011***

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#### ***Note 1 - Continued***

**Cash and Cash Equivalents** - Cash and cash equivalents consist of checking accounts, money market accounts and highly liquid investments purchased with a maturity of three months or less. The carrying amount of these assets approximates fair value due to the short maturity of the instruments. The Foundation maintains its cash and cash equivalents in accounts that exceed federally insured limits at times during the year. The Foundation has not experienced any losses in these accounts, and management does not believe it is exposed to a significant credit risk.

**Promises to Give** - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

**Concentration of Credit Risk** - Financial instruments that potentially subject the Foundation to concentrations of credit risk consist of cash and investment balances. The Foundation has established guidelines relative to diversification and maturities that seek to maintain safety and liquidity.

Approximately 62% of the Foundation's contribution revenue was received from three donors for the year ended December 31, 2012, and approximately 67% of contribution revenues was received from two donors for the year ended December 31, 2011. Promises to give from one donor accounted for 22% and 96% of the receivable balance at December 31, 2012 and 2011, respectively.

**Investments** - Investments in all debt securities and equity securities with readily determinable market values are recorded at fair value. The fair value of investments in securities traded on national securities exchanges is valued at the closing price on the last business day of the fiscal year. Money market accounts held in the investment portfolio are reported at cost plus accrued interest. Contributed investments are recognized at their fair values on the date received. Beneficial interests in assets held by The Seattle Foundation and in a split interest agreement are reported at fair value (Notes 6 and 7).

**Equipment** - Equipment is recorded at cost, or in the instance of donated properties, at fair value as of the date of the gift. Generally, equipment purchases that exceed \$1,000 are capitalized as assets. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, typically five years. Accumulated depreciation totaled \$1,612 and \$9,833 at December 31, 2012 and 2011, respectively.

**Grants Payable to The Seattle Public Library** - The Foundation makes annual gifts to the Library to support Library programs. The amount granted each year is approved by the Foundation's board and is partially determined by the Foundation's endowment spending policy (Note 10). Grants awarded but not yet distributed to the Library at year end are reported as grants payable to The Seattle Public Library in the statements of financial position.

**Donated Facilities, Goods and Services** - The City of Seattle owns the Central Library. The Foundation occupies a portion of the Central Library office space rent free. The estimated fair value of the donated facilities is immaterial for the years ended December 31, 2012 and 2011, respectively, and is not reflected in the statements of activities and changes in net assets.

## ***THE SEATTLE PUBLIC LIBRARY FOUNDATION***

### ***Notes to Financial Statements***

#### ***For the Years Ended December 31, 2012 and 2011***

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#### ***Note 1 - Continued***

Noncash (in-kind) contributions are recorded at fair value at the date the contribution is received. For the years ended December 31, 2012 and 2011, in-kind contributions totaling \$495,531 and \$586,573, respectively, consisted primarily of publication marketing and promotion of Library programs. Of the total in-kind contributions available, \$519,971 and \$560,642 were granted to the Library and recorded as program expense for the years ended December 31, 2012 and 2011, respectively. The remaining amounts were recorded as time-restricted contributions for future grants or as management and general, and fundraising expenses.

**Fair Value Measurements and Valuation Techniques** - In accordance with generally accepted accounting principles in the United States of America (GAAP), a three-tiered hierarchy of input levels is used for fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date. Valuation techniques utilized to determine fair value are consistently applied. The three tiers of inputs used for fair value measurements are as follows:

Level 1 - Fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2 - Fair values are based on observable inputs that include: quoted market prices for similar assets and liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.

Level 3 - Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

**Functional Allocation of Expenses** - The Foundation's various expenses have been summarized on a functional basis in the statements of activities and changes in net assets. Certain costs have been allocated between the programs, management and general, and fundraising expenses.

**Federal Income Tax** - The Internal Revenue Service has recognized the Foundation as exempt from federal income taxes under provision of Section 501(a) of the Internal Revenue Code as an entity described in Section 501(c)(3) as not a private foundation. The Foundation files income tax returns with the U.S. government. The Foundation is subject to income tax examinations for the current year and certain prior years based on the applicable laws and regulations.

**Use of Estimates** - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications** - Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. The reclassifications have no effect on previously reported changes to net assets or net assets.

## THE SEATTLE PUBLIC LIBRARY FOUNDATION

### Notes to Financial Statements

For the Years Ended December 31, 2012 and 2011

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#### Note 2 - Significant Estimates

The Foundation had been named as a beneficiary to a large estate in 2009, of which the value had not been estimable in years prior to 2011 due to the illiquid nature of the estate assets. During the year ended December 31, 2011, the Foundation was notified that the primary asset of the estate, a privately held company, was for sale and had, in fact, entered into a pending sale agreement for the entire privately held company as of December 31, 2011. Based on the pending sales terms, discounted for normal uncertainties surrounding the pending sale, the Foundation recognized a receivable due from the estate in the amount of approximately \$2.9 million. This amount was included in promises to give on the statements of financial position as of December 31, 2011 with a corresponding amount recognized as contribution revenue on the statements of activities and changes in net assets for the year ended December 31, 2011.

During the year ended December 31, 2012, the Foundation was notified that the pending sale had been completed and the Foundation's share of the estate proceeds was received. In addition to the approximately \$2.9 million received for the above-referenced promise to give, the Foundation received an additional approximately \$1.2 million which was recognized as contribution revenue in the accompanying statements of activities and changes in net assets for the year ended December 31, 2012.

In addition to the interest in the estate, the Foundation held 4,500 shares of stock in the privately held company at the end of 2011 and until the sale was substantially completed during the year ended December 31, 2012. These shares were valued at fair value using Level 3 inputs at the end of 2011. Prior to 2011, these shares had been valued based on the net present value of the future dividends to be received. In 2011 they were valued based on the estimated selling price according to the pending sale terms, discounted for normal uncertainties surrounding the pending sale. During the year ended December 31, 2012, the 4,500 shares were surrendered under the terms of the sale, and the Foundation received its share of the sale proceeds. An additional realized gain of approximately \$312,000 was recognized as investment earnings in the statements of activities and changes in net assets for the year ended December 31, 2012.

#### Note 3 - Promises to Give

Unconditional promises to give are as follows at December 31:

|  | <u>2012</u>             | <u>2011</u>                |
|--|-------------------------|----------------------------|
| Receivables expected in less than one year   | \$ 110,508              | \$ 2,860,374               |
| Receivables expected in one to five years    | <u>2,034</u>            | <u>150,045</u>             |
|  | 112,542                 | 3,010,419                  |
| Allowance for uncollectible promises to give | (25,000)                | (25,000)                   |
| Present value discount (1.4% to 3.5%)        | <u>(100)</u>            | <u>(9,300)</u>             |
| <b>Promises to Give, Net</b>                 | <b><u>\$ 87,442</u></b> | <b><u>\$ 2,976,119</u></b> |

## THE SEATTLE PUBLIC LIBRARY FOUNDATION

### Notes to Financial Statements

For the Years Ended December 31, 2012 and 2011

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#### Note 3 - Continued

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

|  | <u>2012</u>             | <u>2011</u>             |
|--|-------------------------|-------------------------|
| Allowance, beginning of year                           | \$ 25,000               | \$ 25,000               |
| Write-off of uncollectible promises to give            | (17,948)                | (18,745)                |
| Change in provision for uncollectible promises to give | <u>17,948</u>           | <u>18,745</u>           |
| <b>Allowance, End of Year</b>                          | <b><u>\$ 25,000</u></b> | <b><u>\$ 25,000</u></b> |

#### Note 4 - Investments

Investments are presented in the statements of financial position as follows at December 31:

|  | <u>2012</u>                 | <u>2011</u>                 |
|--|-----------------------------|-----------------------------|
| Investments  | \$ 53,070,453               | \$ 45,204,025               |
| Beneficial interest in assets held by The Seattle Foundation | 2,864,755                   | 2,649,491                   |
| Split interest agreement                                     | <u>145,000</u>              | <u>129,000</u>              |
| <b>Total Investments</b>                                     | <b><u>\$ 56,080,208</u></b> | <b><u>\$ 47,982,516</u></b> |

Investment earnings are reported in the statements of activities and changes in net assets and consisted of the following for the years ended December 31:

|                                 | <u>2012</u>                | <u>2011</u>              |
|---------------------------------|----------------------------|--------------------------|
| Interest and dividends          | \$ 1,437,672               | \$ 1,247,298             |
| Realized gain                   | 667,385                    | 644,837                  |
| Unrealized gain (loss)          | 3,755,927                  | (1,315,369)              |
| Investment fees and expenses    | <u>(123,903)</u>           | <u>(122,815)</u>         |
| <b>Investment Earnings, Net</b> | <b><u>\$ 5,737,081</u></b> | <b><u>\$ 453,951</u></b> |

**THE SEATTLE PUBLIC LIBRARY FOUNDATION**

**Notes to Financial Statements**

**For the Years Ended December 31, 2012 and 2011**

**Note 5 - Fair Value Measurements**

Fair values of assets measured on a recurring basis were as follows:

|   | <i>Fair Value Measurements as of December 31, 2012</i> |                     |                     |                     |
|---|--|---------------------|---------------------|---------------------|
|   | <i>Level 1</i>   | <i>Level 2</i>      | <i>Level 3</i>      | <i>Total</i>        |
| Exchange traded index and mutual funds-                         |  |                     |                     |                     |
| Vanguard Total Stock Market ETF<br>(U.S. Equities)              | \$19,492,186   | \$ -                | \$ -                | \$19,492,186        |
| Vanguard All World ex-U.S ETF<br>(Non-U.S. Equities)            | 7,768,808  |                     |                     | 7,768,808           |
| Vanguard Total Bond Market ETF<br>(U.S. Bonds)                  | 5,220,327  |                     |                     | 5,220,327           |
| Baird Core Plus Bond<br>(U.S. Bonds)                            | 4,070,688  |                     |                     | 4,070,688           |
| PIMCO total Return Fund<br>(Flexible Bond Fund)                 | 6,484,115  |                     |                     | 6,484,115           |
| Total exchange traded<br>index and mutual funds                 | 43,036,124   |                     |                     | 43,036,124          |
| Certificates of deposit   |  | 8,664,466           |                     | 8,664,466           |
| Cash and money market funds<br>held for investment              | 1,369,863  |                     |                     | 1,369,863           |
| Beneficial interest in assets held<br>by The Seattle Foundation |  |                     | 2,864,755           | 2,864,755           |
| Split interest agreement  |  |                     | 145,000             | 145,000             |
| <b>Investments Reported at Fair Value</b>                       | <b>\$44,405,987</b>                                    | <b>\$ 8,664,466</b> | <b>\$ 3,009,755</b> | <b>\$56,080,208</b> |

**THE SEATTLE PUBLIC LIBRARY FOUNDATION**

**Notes to Financial Statements**

**For the Years Ended December 31, 2012 and 2011**

**Note 5 - Continued**

|   | <i>Fair Value Measurements as of December 31, 2011</i> |                     |                     |                     |
|---|--|---------------------|---------------------|---------------------|
|   | <i>Level 1</i>   | <i>Level 2</i>      | <i>Level 3</i>      | <i>Total</i>        |
| Exchange traded index and mutual funds-                         |  |                     |                     |                     |
| Vanguard Total Stock Market ETF<br>(U.S. Equities)              | \$17,610,484   | \$ -                | \$ -                | \$17,610,484        |
| Vanguard All World ex-U.S ETF<br>(Non-U.S. Equities)            | 5,491,525  |                     |                     | 5,491,525           |
| Vanguard Total Bond Market ETF<br>(U.S. Bonds)                  | 5,083,409  |                     |                     | 5,083,409           |
| Baird Core Plus Bond<br>(U.S. Bonds)                            | 3,878,492  |                     |                     | 3,878,492           |
| PIMCO total Return Fund<br>(Flexible Bond Fund)                 | 6,010,468  |                     |                     | 6,010,468           |
| Total exchange traded<br>index and mutual funds                 | 38,074,378   |                     |                     | 38,074,378          |
| Certificates of deposit   |  | 4,345,631           |                     | 4,345,631           |
| Corporate and government bonds                                  |  | 308,268             |                     | 308,268             |
| Cash and money market funds<br>held for investment              | 1,663,748  |                     |                     | 1,663,748           |
| Beneficial interest in assets held<br>by The Seattle Foundation |  |                     | 2,649,491           | 2,649,491           |
| Split interest agreement  |  |                     | 129,000             | 129,000             |
| Privately held stock  |  |                     | 812,000             | 812,000             |
| <b>Investments Reported at Fair Value</b>                       | <b>\$39,738,126</b>                                    | <b>\$ 4,653,899</b> | <b>\$ 3,590,491</b> | <b>\$47,982,516</b> |

In prior years, the Foundation's certificates of deposit and corporate and government bonds were presented as Level 1 investments. During the year ended December 31, 2012, management determined that these investments are valued using a pricing matrix. Therefore, the investments are presented as Level 2 within the fair value framework disclosed above.

Prior to 2011, the Foundation held privately held stock valued on a recurring basis through discounted cash flow analysis, with significant assumptions made for expected future cash flows from dividends, a risk-free rate of return and liquidity discount, which are Level 3 inputs. In 2011, the privately held stock was valued at the pending private sale price, also a Level 3 input, discounted for normal uncertainties inherent in the pending sale. During the year ended December 31, 2012, the privately held stock was sold when the 2011 pending sale was substantially completed in 2012.

**THE SEATTLE PUBLIC LIBRARY FOUNDATION**

**Notes to Financial Statements**

**For the Years Ended December 31, 2012 and 2011**

**Note 5 - Continued**

The split interest agreement (Note 7) is valued using a discounted cash flow model based on the present value of the estimated future benefits to be received, which is a Level 3 input.

The Foundation also is the beneficiary of an affiliated agency fund held with The Seattle Foundation made up of many different investments (Note 6). The Foundation does not have a direct claim to any individual assets within the affiliated agency fund but rather at the aggregate level of the assets within the fund. Since the affiliated agency fund is comprised of many different investments with varying levels of observable inputs, the valuation of the entire portfolio cannot directly be corroborated by the Foundation with observable market data. Thus, the Foundation's beneficial interest in this fund is also reported at Level 3.

A reconciliation of the beginning and ending balances for fair value measurement made using significant unobservable inputs (Level 3) is as follows at December 31:

|   | <i>Beneficial<br/>Interest<br/>in Assets</i> | <i>Privately<br/>Held<br/>Stock</i> | <i>Split<br/>Interest<br/>Agreement</i> | <i>Total</i>        |
|---|--|-------------------------------------|---|---------------------|
| Fair value, December 31, 2010                                   | \$ 2,829,047                                 | \$ 272,000                          | \$ 135,000                              | \$ 3,236,047        |
| Unrealized (loss) gain,<br>included in the change in net assets | (185,926)                                    | 540,000                             | (6,000)                                 | 348,074             |
| Purchases   | 6,370  |                                     |   | 6,370               |
| <b>Fair Value, December 31, 2011</b>                            | <b>2,649,491</b>                             | <b>812,000</b>                      | <b>129,000</b>                          | <b>3,590,491</b>    |
| Unrealized gain,<br>included in the change in net assets        | 213,700                                      |                                     | 16,000                                  | 229,700             |
| Purchases   | 1,564  |                                     |   | 1,564               |
| Sales   |  | (812,000)                           |   | (812,000)           |
| <b>Fair Value, December 31, 2012</b>                            | <b>\$ 2,864,755</b>                          | <b>\$ -</b>                         | <b>\$ 145,000</b>                       | <b>\$ 3,009,755</b> |

**Note 6 - Beneficial Interest in Assets Held by The Seattle Foundation**

The Foundation holds funds at The Seattle Foundation that are subject to The Seattle Foundation's variance power and from which the Foundation may receive annual payouts. The Foundation's beneficial interest in these funds is recorded as an asset in the statements of financial position. However, the timing and amount of payouts are determined by the policies of The Seattle Foundation and are not controlled by the Foundation.



## THE SEATTLE PUBLIC LIBRARY FOUNDATION

### Notes to Financial Statements

For the Years Ended December 31, 2012 and 2011

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#### Note 7 - Split Interest Agreement

The Foundation is a beneficiary in the future remaining assets of a charitable remainder unitrust. The unitrust provides specified payments to designated beneficiaries over the trust's term, with the remaining assets distributed to designated not-for-profit organizations upon termination of the trust. Upon the death of the beneficiaries, the Foundation will receive its portion of the remaining assets of the unitrust. The Foundation's interest in the unitrust is recorded at the net present value of the estimated future benefits to be received developed in part on actuarial assumptions based on the age of the current beneficiaries. Present value discount rates of 1.2% and 1.6% were used for the years ended December 31, 2012 and 2011, respectively. The Foundation's interest in the unitrust is recorded in the statements of financial position. The Foundation's interest in the gains and losses of the unitrust are recognized and included in investment earnings in the statements of activities and changes in net assets.

#### Note 8 - Unrestricted Net Assets

Unrestricted net assets were available for the following purposes as of December 31:

|   | <u>2012</u>                        | <u>2011</u>                        |
|---|------------------------------------|------------------------------------|
| Undesignated                                  | \$ 11,729,200                      | \$ 9,808,287                       |
| Board designated-                             |                                    |                                    |
| General quasi-endowment                       | 5,000,000                          | 5,000,000                          |
| The Seattle Room and Center for Local History | 600,000                            | 600,000                            |
| Accumulated earnings on quasi-endowments      | <u>950,898</u>                     | <u>352,219</u>                     |
| Total board-designated                        | 6,550,898                          | 5,952,219                          |
| Endowment earnings deficit                    |                                    | <u>(475)</u>                       |
| <b>Total Unrestricted Net Assets</b>          | <b><u><u>\$ 18,280,098</u></u></b> | <b><u><u>\$ 15,760,031</u></u></b> |

#### Note 9 - Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes as of December 31:

|  | <u>2012</u>                        | <u>2011</u>                       |
|--|------------------------------------|-----------------------------------|
| Collections and resources                      | \$ 7,117,858                       | \$ 5,266,997                      |
| Library programs                               | 4,558,806                          | 3,577,042                         |
| Capital improvements                           | 68,592                             | 87,855                            |
| Assets held in trust                           | 145,000                            | 129,000                           |
| Time restricted gifts                          | <u>52,058</u>                      | <u>45,285</u>                     |
| <b>Total Temporarily Restricted Net Assets</b> | <b><u><u>\$ 11,942,314</u></u></b> | <b><u><u>\$ 9,106,179</u></u></b> |

## ***THE SEATTLE PUBLIC LIBRARY FOUNDATION***

### ***Notes to Financial Statements***

***For the Years Ended December 31, 2012 and 2011***

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#### ***Note 10 - Endowment***

The Foundation's endowments consist of fifteen funds established to support a variety of areas of the Library. Its endowments include both donor-restricted endowment funds and funds designated by the Board to function as endowments (quasi-endowments). As required by GAAP, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law** - The Foundation operates in accordance with the Washington State Prudent Management of Institutional Funds Act (PMIFA). The Board of Directors of the Foundation has interpreted PMIFA as requiring the preservation of the original amount of donor-restricted contributions to the endowments, plus any required accumulations, as not expendable. 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 PMIFA. In accordance with PMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Foundation and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Foundation; and
- The investment policies of the Foundation.

**Funds with Deficiencies** - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or PMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and totaled \$475 at December 31, 2011, and resulted from unfavorable market conditions. There were no such deficiencies as of December 31, 2012.

**Return Objectives and Risk Parameters** - The Foundation has adopted investment and spending policies for both donor-restricted endowment assets and quasi-endowment assets designed to provide reasonable spending in support of the Library while maintaining the purchasing power of the endowments over the long term. To achieve these objectives, endowment assets are invested in a well-diversified, balanced portfolio intended to capture the broad market return. As a result, the portfolio assumes moderate investment risk consistent with the broad market.

**Strategies Employed for Achieving Objectives** - The Foundation utilizes a total return strategy, with investment returns achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Because the Foundation seeks to balance current spending with maintenance of purchasing power over the long term, the asset allocation of the portfolio favors equity investments, but within an overall balanced portfolio.

**THE SEATTLE PUBLIC LIBRARY FOUNDATION**

**Notes to Financial Statements**

**For the Years Ended December 31, 2012 and 2011**

**Note 10 - Continued**

**Spending Policy and How the Investment Objectives Relate to Spending Policy** - The Foundation has a policy of appropriating for distribution each year 4.25% of the endowment fund's average fair value over the prior twelve quarters. This is calculated as of June 30 proceeding the calendar year in which the distribution is planned. The spending rate was established in conjunction with the endowment's target asset allocation and its long term expected investment return to achieve the endowment's investment objectives.

Endowment net assets consisted of the following as of December 31, 2012:

|   | <u>Unrestricted</u>        | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>                |
|---|----------------------------|-----------------------------------|-----------------------------------|-----------------------------|
| Donor-restricted endowment funds-                   |                            |                                   |                                   |                             |
| Endowments for collections<br>and resources         | \$ -                       | \$ 6,278,863                      | \$ 17,555,431                     | \$ 23,834,294               |
| Endowments for library programs                     |                            | 2,455,606                         | 9,232,601                         | 11,688,207                  |
| General endowments                                  |                            | 39,808                            | 230,020                           | 269,828                     |
|   |                            |                                   |                                   |                             |
| Total donor-restricted endowments                   |                            | 8,774,277                         | 27,018,052                        | 35,792,329                  |
| Board-designated quasi-endowment funds-             |                            |                                   |                                   |                             |
| The Seattle Room and Center<br>for Local History    | 555,922                    |                                   |                                   | 555,922                     |
| General board-designated<br>quasi-endowments        | 5,994,976                  |                                   |                                   | 5,994,976                   |
|   |                            |                                   |                                   |                             |
| Total board-designated endowments                   | 6,550,898                  |                                   |                                   | 6,550,898                   |
|   |                            |                                   |                                   |                             |
| <b>Total Endowment Funds,<br/>December 31, 2012</b> | <b><u>\$ 6,550,898</u></b> | <b><u>\$ 8,774,277</u></b>        | <b><u>\$ 27,018,052</u></b>       | <b><u>\$ 42,343,227</u></b> |

**THE SEATTLE PUBLIC LIBRARY FOUNDATION**

**Notes to Financial Statements**

**For the Years Ended December 31, 2012 and 2011**

**Note 10 - Continued**

Endowment net assets consisted of the following as of December 31, 2011:

|   | <u>Unrestricted</u>        | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>                |
|---|----------------------------|-----------------------------------|-----------------------------------|-----------------------------|
| Donor-restricted endowment funds-                   |                            |                                   |                                   |                             |
| Endowments for collections<br>and resources         | \$ (475)                   | \$ 4,323,074                      | \$ 17,454,415                     | \$ 21,777,014               |
| Endowments for library programs                     |                            | 1,340,292                         | 9,206,648                         | 10,546,940                  |
| General endowments                                  |                            | 17,355                            | 228,320                           | 245,675                     |
| Total donor-restricted endowments                   | (475)                      | 5,680,721                         | 26,889,383                        | 32,569,629                  |
| Board-designated quasi-endowment funds-             |                            |                                   |                                   |                             |
| The Seattle Room and Center<br>for Local History    | 510,617                    |                                   |                                   | 510,617                     |
| General board-designated<br>quasi-endowments        | 5,441,602                  |                                   |                                   | 5,441,602                   |
| Total board-designated endowments                   | 5,952,219                  |                                   |                                   | 5,952,219                   |
| <b>Total Endowment Funds,<br/>December 31, 2011</b> | <b><u>\$ 5,951,744</u></b> | <b><u>\$ 5,680,721</u></b>        | <b><u>\$ 26,889,383</u></b>       | <b><u>\$ 38,521,848</u></b> |

Changes to endowment net assets are as follows for the year ended December 31, 2012:

|  | <u>Unrestricted</u>        | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>                |
|--|----------------------------|-----------------------------------|-----------------------------------|-----------------------------|
| Endowment net assets,<br>beginning of year         | \$ 5,951,744               | \$ 5,680,721                      | \$ 26,889,383                     | \$ 38,521,848               |
| Endowment investment earnings-                     |                            |                                   |                                   |                             |
| Interest and dividends                             | 164,533                    | 1,002,015                         |                                   | 1,166,548                   |
| Realized and unrealized gains                      | 586,221                    | 3,378,426                         |                                   | 3,964,647                   |
| Total endowment investment earnings                | 750,754                    | 4,380,441                         |                                   | 5,131,195                   |
| Contributions                                      |                            |                                   | 128,669                           | 128,669                     |
| Appropriation of endowment<br>for expenditure      | (151,600)                  | (1,286,885)                       |                                   | (1,438,485)                 |
| <b>Endowment Net Assets,<br/>December 31, 2012</b> | <b><u>\$ 6,550,898</u></b> | <b><u>\$ 8,774,277</u></b>        | <b><u>\$ 27,018,052</u></b>       | <b><u>\$ 42,343,227</u></b> |

**THE SEATTLE PUBLIC LIBRARY FOUNDATION**

**Notes to Financial Statements**

**For the Years Ended December 31, 2012 and 2011**

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**Note 10 - Continued**

Changes to endowment net assets are as follows for the year ended December 31, 2011:

|  | <u>Unrestricted</u>        | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>                |
|--|----------------------------|-----------------------------------|-----------------------------------|-----------------------------|
| Endowment net assets,<br>beginning of year         | \$ 5,974,635               | \$ 6,892,132                      | \$ 26,871,689                     | \$ 39,738,456               |
| Endowment investment earnings-                     |                            |                                   |                                   |                             |
| Interest and dividends                             | 170,891                    | 752,165                           |                                   | 923,056                     |
| Realized and unrealized losses                     | <u>(172,382)</u>           | <u>(681,414)</u>                  |                                   | <u>(853,796)</u>            |
| Total endowment investment<br>(loss) earnings      | (1,491)                    | 70,751                            |                                   | 69,260                      |
| Contributions                                      |                            |                                   | 17,694                            | 17,694                      |
| Appropriation of endowment<br>for expenditure      | <u>(21,400)</u>            | <u>(1,282,162)</u>                |                                   | <u>(1,303,562)</u>          |
| <b>Endowment Net Assets,<br/>December 31, 2011</b> | <b><u>\$ 5,951,744</u></b> | <b><u>\$ 5,680,721</u></b>        | <b><u>\$ 26,889,383</u></b>       | <b><u>\$ 38,521,848</u></b> |

**Note 11 - Subsequent Events**

**Subsequent Events** - The Foundation has evaluated subsequent events through May 1, 2013, the date on which the financial statements were available to be issued.