

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Financial Statements

For the Years Ended December 31, 2015 and 2014

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Independent Auditor's 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 statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and changes in net assets 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 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 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.



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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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Clark Nuber PS

Certified Public Accountants
May 4, 2016

THE SEATTLE PUBLIC LIBRARY FOUNDATION

**Statements of Financial Position
December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Assets		
Cash and cash equivalents	\$ 3,318,767	\$ 1,395,382
Promises to give, net	190,496	736,804
Prepaid expenses and other assets	15,731	8,429
Investments	57,488,470	62,009,622
Split interest agreements	692,574	224,000
Beneficial interest in assets held by Seattle Foundation	3,027,398	3,190,117
Equipment, net	<u>1,977</u>	<u>3,004</u>
Total Assets	<u>\$ 64,735,413</u>	<u>\$ 67,567,358</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 329,709	\$ 296,578
Grants payable to The Seattle Public Library	<u>1,978,093</u>	<u>1,542,685</u>
Total Liabilities	2,307,802	1,839,263
Net Assets:		
Unrestricted	17,946,648	19,702,844
Temporarily restricted	15,627,859	18,148,089
Permanently restricted	<u>28,853,104</u>	<u>27,877,162</u>
Total Net Assets	<u>62,427,611</u>	<u>65,728,095</u>
Total Liabilities and Net Assets	<u>\$ 64,735,413</u>	<u>\$ 67,567,358</u>

See accompanying notes.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

**Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2015 and 2014**

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:								
Contributions	\$ 1,219,929	\$ 1,552,905	\$ 954,662	\$ 3,727,496	\$ 1,812,763	\$ 1,781,105	\$ 447,856	\$ 4,041,724
In-kind contributions	2,075	354,639		356,714	15,715	448,006		463,721
Investment earnings (losses)	(129,908)	(465,315)	21,280	(573,943)	1,288,855	2,445,158		3,734,013
Total Support and Revenue Before Net Assets Released From Restrictions	1,092,096	1,442,229	975,942	3,510,267	3,117,333	4,674,269	447,856	8,239,458
Net Assets Released From Restrictions:								
Satisfaction of purpose restrictions	3,679,957	(3,679,957)			2,773,949	(2,773,949)		
Satisfaction of time restrictions	282,502	(282,502)			3,000	(3,000)		
Total Support and Revenue	5,054,555	(2,520,230)	975,942	3,510,267	5,894,282	1,897,320	447,856	8,239,458
Expenses:								
Grants made to The Seattle Public Library-								
Collections and resources	1,531,324			1,531,324	1,285,919			1,285,919
Collections and resources - In-kind	4,500			4,500	100			100
Library programs and marketing	2,575,562			2,575,562	1,672,466			1,672,466
Library programs and marketing - In-kind	353,139			353,139	352,551			352,551
Capital improvements	967,443			967,443	458,793			458,793
Capital improvements - In-kind					95,355			95,355
Other	343,577			343,577	387,854			387,854
Other - In-kind	2,075			2,075	15,715			15,715
Total Program Expenses	5,777,620			5,777,620	4,268,753			4,268,753
Management and general	644,547			644,547	574,363			574,363
Fundraising	388,584			388,584	371,925			371,925
Total Expenses	6,810,751			6,810,751	5,215,041			5,215,041
Change in Net Assets	(1,756,196)	(2,520,230)	975,942	(3,300,484)	679,241	1,897,320	447,856	3,024,417
Net assets, beginning of year	19,702,844	18,148,089	27,877,162	65,728,095	19,023,603	16,250,769	27,429,306	62,703,678
Net Assets, End of Year	\$ 17,946,648	\$ 15,627,859	\$ 28,853,104	\$ 62,427,611	\$ 19,702,844	\$ 18,148,089	\$ 27,877,162	\$ 65,728,095

See accompanying notes.

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Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating Activities:		
Cash received from-		
Donors	\$ 3,353,138	\$ 3,069,735
Investments	1,546,247	1,369,737
Cash paid for-		
The Seattle Public Library grants	(4,982,499)	(3,925,405)
Services and supplies, including general and administrative expenses paid to The Seattle Public Library	<u>(1,007,302)</u>	<u>(917,426)</u>
Net Cash Used in Operating Activities	(1,090,416)	(403,359)
Investing Activities:		
Purchase of investments	(6,683,816)	(10,406,214)
Proceeds from sale of investments	9,158,771	8,436,897
Purchase of equipment		<u>(1,191)</u>
Net Cash Provided by (Used in) Investing Activities	2,474,955	(1,970,508)
Financing Activities:		
Proceeds from split interest agreements	318,002	
Cash received for endowment contributions	<u>220,844</u>	<u>284,771</u>
Net Cash Provided by Financing Activities	538,846	284,771
Change in Cash and Cash Equivalents	1,923,385	(2,089,096)
Cash and cash equivalents, beginning of year	<u>1,395,382</u>	<u>3,484,478</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,318,767</u>	<u>\$ 1,395,382</u>

See accompanying notes.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Statements of Cash Flows (Continued)
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating Activities:		
Change in net assets	\$ (3,300,484)	\$ 3,024,417
Adjustments to reconcile change in net assets to net cash used in operating activities-		
Noncash changes:		
Realized and unrealized gain on investments	2,152,485	(2,239,028)
Contribution of beneficial interest in split interest agreement	(703,794)	
Change in value of beneficial interest in assets held by Seattle Foundation	56,431	(113,896)
Change in value of split interest agreement	(82,782)	2,000
Depreciation	1,027	947
In-kind contributions	(356,714)	(463,721)
In-kind contributions to The Seattle Public Library	359,714	451,319
Other noncash expense	(3,000)	12,402
Cash received for endowment contributions	(249,239)	(447,856)
Changes in assets and liabilities:		
Promises to give, net	574,703	(538,432)
Prepaid expenses and other assets	(7,302)	9,376
Accounts payable and accrued liabilities	33,131	19,486
Grants payable to The Seattle Public Library	435,408	(120,373)
Net Cash Used in Operating Activities	<u>\$ (1,090,416)</u>	<u>\$ (403,359)</u>

See accompanying notes.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements For the Years Ended December 31, 2015 and 2014

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 \$125 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, 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 for 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, 2015 and 2014

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 29% and 34% of the Foundation's contribution revenue was received from two donors for the years ended December 31, 2015 and 2014, respectively. Promises to give from three donors accounted for 82% of the outstanding balance at December 31, 2015, and promises to give from two donors accounted for 90% of the outstanding balance at December 31, 2014.

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. Brokered certificates of deposit are valued using quoted prices in active markets for similar instruments. Contributed investments are recognized at their fair values on the date received. Beneficial interests in assets held by Seattle Foundation and in a split interest agreement are reported at fair value (Notes 5 and 6).

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 \$3,157 and \$2,130 at December 31, 2015 and 2014, 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 9). 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, 2015 and 2014, 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, 2015 and 2014

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, 2015 and 2014, in-kind contributions totaling \$356,714 and \$463,721, respectively, consisted of publication marketing and promotion of Library programs. Of the total in-kind contributions available, \$359,714 and \$451,319 were granted to the Library and recorded as program expense for the years ended December 31, 2015 and 2014, 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 (U.S. 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 based on 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) and is not a private foundation.

Use of Estimates - The preparation of financial statements in conformity with U.S. 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.

Subsequent Events - The Foundation has evaluated subsequent events through May 4, 2016, the date on which the financial statements were available to be issued.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 2 - Promises to Give

Unconditional promises to give are as follows at December 31:

	<u>2015</u>	<u>2014</u>
Promises to give expected in less than one year	\$ 117,121	\$ 625,794
Promises to give expected in one to five years	<u>103,815</u>	<u>143,050</u>
	220,936	768,844
Allowance for uncollectible promises to give	(25,000)	(25,000)
Present value discount (1.3% to 2.2%)	<u>(5,440)</u>	<u>(7,040)</u>
Promises to Give, Net	<u>\$ 190,496</u>	<u>\$ 736,804</u>

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

	<u>2015</u>	<u>2014</u>
Allowance, beginning of year	\$ 25,000	\$ 25,000
Write-off of uncollectible promises to give	(6,972)	(14,600)
Change in provision for uncollectible promises to give	<u>6,972</u>	<u>14,600</u>
Allowance, End of Year	<u>\$ 25,000</u>	<u>\$ 25,000</u>

Note 3 - Investments

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

	<u>2015</u>	<u>2014</u>
Investments	\$ 57,488,470	\$ 62,009,622
Beneficial interest in assets held by Seattle Foundation	3,027,398	3,190,117
Split interest agreements	<u>692,574</u>	<u>224,000</u>
Total Investments	<u>\$ 61,208,442</u>	<u>\$ 65,423,739</u>

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 3 - Continued

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

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 1,666,646	\$ 1,495,443
Realized gain	1,211,528	898,469
Unrealized (loss) gain	(3,364,013)	1,340,559
Change in value of beneficial interest in Seattle Foundation	(56,431)	113,896
Change in value of split interest agreement	82,782	(2,000)
Investment fees and expenses	<u>(114,455)</u>	<u>(112,354)</u>
Investment Earnings (Losses), Net	<u>\$ (573,943)</u>	<u>\$ 3,734,013</u>

Note 4 - Fair Value Measurements

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

	Fair Value Measurements as of December 31, 2015			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Exchange traded index and mutual funds-				
Vanguard Total Stock Market ETF				
(U.S. Equities)	\$ 23,195,382	\$ -	\$ -	\$ 23,195,382
Vanguard All World ex-U.S ETF				
(Non-U.S. Equities)	10,970,358			10,970,358
Vanguard Total Bond Market ETF				
(U.S. Bonds)	4,961,616			4,961,616
Metropolitan West Total Return Bond I				
(U.S. Bonds)	7,317,415			7,317,415
PIMCO Total Return Fund				
(Flexible Bond Fund)	<u>9,326,713</u>			<u>9,326,713</u>
Total exchange traded				
index and mutual funds	55,771,484			55,771,484
Certificates of deposit		961,120		961,120
Cash and money market funds				
held for investment	755,866			755,866
Beneficial interest in assets held				
by Seattle Foundation			3,027,398	3,027,398
Split interest agreement			<u>692,574</u>	<u>692,574</u>
Investments Reported at Fair Value	<u>\$ 56,527,350</u>	<u>\$ 961,120</u>	<u>\$ 3,719,972</u>	<u>\$ 61,208,442</u>

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**Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014**

Note 4 - Continued

	Fair Value Measurements as of December 31, 2014			
	Level 1	Level 2	Level 3	Total
Exchange traded index and mutual funds-				
Vanguard Total Stock Market ETF (U.S. Equities)	\$ 27,346,515	\$ -	\$ -	\$ 27,346,515
Vanguard All World ex-U.S ETF (Non-U.S. Equities)	9,092,012			9,092,012
Vanguard Total Bond Market ETF (U.S. Bonds)	4,697,937			4,697,937
Metropolitan West Total Return Bond I (U.S. Bonds)	7,207,590			7,207,590
PIMCO Total Return Fund (Flexible Bond Fund)	8,835,485			8,835,485
Total exchange traded index and mutual funds	57,179,539			57,179,539
Certificates of deposit		4,000,872		4,000,872
Cash and money market funds held for investment	829,211			829,211
Beneficial interest in assets held by Seattle Foundation			3,190,117	3,190,117
Split interest agreement			224,000	224,000
Investments Reported at Fair Value	\$ 58,008,750	\$ 4,000,872	\$ 3,414,117	\$ 65,423,739

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis. There have been no changes in the methodologies used at December 31, 2015 and 2014.

Exchange Traded Index and Mutual Funds - Exchange traded index and mutual funds are valued at quoted market prices in active markets, which represent the net asset value (NAV) of shares held at year end.

Certificates of Deposit - Brokered certificates of deposit are valued using quoted prices in active markets for similar instruments.

Cash and Money Market Funds - Cash and money market funds are valued at cost plus accrued interest, which approximates fair value.

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**Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014**

Note 4 - Continued

Beneficial Interest in Assets Held by Seattle Foundation - The Foundation is the beneficiary of an affiliated agency fund held with Seattle Foundation (Note 5). 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 reported at Level 3.

Split Interest Agreement - The split interest agreement (Note 6) 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.

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

	Beneficial Interest in Assets	Split Interest Agreement	Total
Fair value, January 1, 2014	\$ 3,176,953	\$ 226,000	\$ 3,402,953
Change in value included in the change in net assets	113,896	(2,000)	111,896
Distributions received	<u>(100,732)</u>	<u></u>	<u>(100,732)</u>
Fair Value, December 31, 2014	3,190,117	224,000	3,414,117
Change in value included in the change in net assets	(56,431)	82,782	26,351
Split interest agreement additions		703,794	703,794
Split interest agreement redemptions		(318,002)	(318,002)
Distributions received	<u>(106,288)</u>	<u></u>	<u>(106,288)</u>
Fair Value, December 31, 2015	<u>\$ 3,027,398</u>	<u>\$ 692,574</u>	<u>\$ 3,719,972</u>

Note 5 - Beneficial Interest in Assets Held by Seattle Foundation

The Foundation holds funds at Seattle Foundation that are subject to 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 Seattle Foundation and are not controlled by the Foundation. The Foundation's interest in the gains and losses of the fund assets, less distributions, are recognized and included in investment earnings 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, 2015 and 2014

Note 6 - Split Interest Agreements

The Foundation was a beneficiary in the future remaining assets of a charitable remainder unitrust. The unitrust provided 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. 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. A present value discount rate of 2.0% was used for the year ended December 31, 2014. 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 included in investment earnings in the statements of activities and changes in net assets and totaled \$82,782 and (\$2,000) for the years ended December 31, 2015 and 2014, respectively. Upon the death of the beneficiaries, the Foundation received its portion of the remaining assets of the unitrust totaling \$285,502 during the year ended December 31, 2015.

During the year ended December 31, 2015, the Foundation became a beneficiary of a charitable lead annuity trust. The trust provides for estimated annual payments to the Foundation of \$65,000 over the trust's term of eighteen years. The Foundation's interest in the trust was estimated to be \$1,170,000; however, the interest in the trust is recorded at the net present value of the estimated future payments to be received using a present value discount rate of 6%. Therefore, contribution revenue totaling \$703,794 is recognized in the statements of activities and changes in net assets during the year ended December 31, 2015. During the year ended December 31, 2015, the Foundation received a distribution from the Trust totaling \$32,500 for one half of the estimated annual payment. The Foundation's interest in the trust at net present value as of December 31, 2015, totaling \$692,574 is recorded in the statements of financial position. As such, the Foundation's accumulated net asset balance related to the trust totals \$725,074 as of December 31, 2015, and consists of the net present value interest in the trust and the estimated annual payment received (Note 9). The Foundation's interest in the gains and losses of the trust are included in investment earnings in the statements of activities and changes in net assets and totaled \$21,280 for the year ended December 31, 2015.

Note 7 - Unrestricted Net Assets

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

	<u>2015</u>	<u>2014</u>
Undesignated	\$ 10,870,962	\$ 12,256,617
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>1,475,686</u>	<u>1,846,227</u>
Total board-designated	<u>7,075,686</u>	<u>7,446,227</u>
Total Unrestricted Net Assets	<u><u>\$ 17,946,648</u></u>	<u><u>\$ 19,702,844</u></u>

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Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 8 - Temporarily Restricted Net Assets

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

	<u>2015</u>	<u>2014</u>
Collections and resources	\$ 9,156,984	\$ 10,526,676
Library programs	5,579,059	5,949,765
Capital improvements	301,417	290,502
Assets held in trust		224,000
Time restricted gifts	<u>590,399</u>	<u>1,157,146</u>
Total Temporarily Restricted Net Assets	<u>\$ 15,627,859</u>	<u>\$ 18,148,089</u>

Note 9 - Permanently Restricted Net Assets

Permanently restricted net assets consist of the following as of December 31:

	<u>2015</u>	<u>2014</u>
Permanently restricted endowment funds	\$ 28,128,030	\$ 27,877,162
Permanently restricted split interest agreement (Note 6)	<u>725,074</u>	
Total Permanently Restricted Net Assets	<u>\$ 28,853,104</u>	<u>\$ 27,877,162</u>

Note 10 - Endowment

The Foundation's endowments consist of twenty-one 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 U.S. GAAP, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements For the Years Ended December 31, 2015 and 2014

Note 10 - Continued

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 reviewed PMIFA and, having considered its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, 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 determination, the Foundation classifies as permanently restricted net assets the original value of gifts to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. 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 U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no material deficiencies as of December 31, 2015 and 2014.

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.

Spending Policy and How the Investment Objectives Relate to Spending Policy - The Foundation has a policy of appropriating for distribution each year up to 4.25% of the endowment fund's average fair value over the prior twelve quarters. This is calculated as of June 30 preceding 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.

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 10 - Continued

Endowment net assets consist of the following as of December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds-				
Endowments for collections and resources	\$ -	\$ 8,404,637	\$ 17,305,263	\$ 25,709,900
Endowments for library programs		3,597,842	10,313,922	13,911,764
General endowments		90,399	508,845	599,244
		<u>12,092,878</u>	<u>28,128,030</u>	<u>40,220,908</u>
Total donor-restricted endowments				
Board-designated quasi-endowment funds-				
The Seattle Room and Center for Local History	595,277			595,277
General board-designated quasi-endowments	<u>6,480,409</u>			<u>6,480,409</u>
Total board-designated endowments	<u>7,075,686</u>			<u>7,075,686</u>
Total Endowment Funds, December 31, 2015	<u>\$ 7,075,686</u>	<u>\$ 12,092,878</u>	<u>\$ 28,128,030</u>	<u>\$ 47,296,594</u>

THE SEATTLE PUBLIC LIBRARY FOUNDATION

**Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014**

Note 10 - Continued

Endowment net assets consist of the following as of December 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds-				
Endowments for collections and resources	\$ -	\$ 9,749,188	\$ 17,305,014	\$ 27,054,202
Endowments for library programs		4,279,098	10,136,064	14,415,162
General endowments		109,146	436,084	545,230
		<u>14,137,432</u>	<u>27,877,162</u>	<u>42,014,594</u>
Total donor-restricted endowments				
Board-designated quasi-endowment funds-				
The Seattle Room and Center for Local History	626,638			626,638
General board-designated quasi-endowments	<u>6,819,589</u>			<u>6,819,589</u>
Total board-designated endowments	<u>7,446,227</u>			<u>7,446,227</u>
Total Endowment Funds, December 31, 2014	<u>\$ 7,446,227</u>	<u>\$ 14,137,432</u>	<u>\$ 27,877,162</u>	<u>\$ 49,460,821</u>

Endowment net assets include outstanding pledges receivable as follows at December 31:

	<u>2015</u>	<u>2014</u>
Permanently restricted endowment funds	\$ 28,013,972	\$ 27,714,077
Permanently restricted endowment pledges receivable	<u>114,058</u>	<u>163,085</u>
Total Endowment Net Assets	<u>\$ 28,128,030</u>	<u>\$ 27,877,162</u>

THE SEATTLE PUBLIC LIBRARY FOUNDATION

Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 10 - Continued

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2014	\$ 7,251,306	\$ 13,117,389	\$ 27,429,306	\$ 47,798,001
Endowment investment earnings-				
Interest and dividends	179,411	948,613		1,128,024
Realized and unrealized gains	<u>273,310</u>	<u>1,498,627</u>		<u>1,771,937</u>
Total endowment investment earnings	452,721	2,447,240		2,899,961
Contributions			447,856	447,856
Appropriation of endowment for expenditure	<u>(257,800)</u>	<u>(1,427,197)</u>		<u>(1,684,997)</u>
Endowment Net Assets, December 31, 2014	7,446,227	14,137,432	27,877,162	49,460,821
Endowment investment earnings and losses-				
Interest and dividends	192,769	1,018,594		1,211,363
Realized and unrealized losses	<u>(282,710)</u>	<u>(1,542,411)</u>		<u>(1,825,121)</u>
Total endowment investment losses	(89,941)	(523,817)		(613,758)
Contributions			250,868	250,868
Appropriation of endowment for expenditure	<u>(280,600)</u>	<u>(1,520,737)</u>		<u>(1,801,337)</u>
Endowment Net Assets, December 31, 2015	<u>\$ 7,075,686</u>	<u>\$ 12,092,878</u>	<u>\$ 28,128,030</u>	<u>\$ 47,296,594</u>