

LONG BEACH PUBLIC LIBRARY FOUNDATION  
FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

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# *Guzman & Gray*

Certified Public Accountants

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4510 East Pacific Coast Highway, Suite 270  
Long Beach, California 90804  
(562) 498-0997 Fax: (562) 597-7359

Mark Gray, C.P.A.  
Patrick S. Guzman, C.P.A.

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Long Beach Public Library Foundation

### **Report on Financial Statements**

We have audited the accompanying financial statements of the Long Beach Public Library Foundation (the "Foundation") (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets, functional expenses, 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.

### **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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

INDEPENDENT AUDITORS' REPORT (Continued)

**Auditors' Responsibility (Continued)**

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Guzman & Gray, CPAs  
Long Beach, CA  
September 7, 2018

LONG BEACH PUBLIC LIBRARY FOUNDATION  
STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

ASSETS

	December 31,	
	2017	2016
<b>ASSETS</b>		
Cash and cash equivalents	\$ 988,545	\$ 1,466,816
Investments	6,743,562	5,220,921
Unconditional promises to give, net	409,043	641,130
Property and equipment, net	920	1,381
Other assets		
Prepaid expenses	16,191	1,632
Beneficial interest in charitable remainder trust	2,943	3,220
	<u>\$ 8,161,204</u>	<u>\$ 7,335,100</u>
<b>TOTAL ASSETS</b>	<b>\$ 8,161,204</b>	<b>\$ 7,335,100</b>

LIABILITIES AND NET ASSETS

<b>LIABILITIES</b>		
Accounts payable	\$ 10,844	\$ 67,438
Accrued expenses	13,927	6,867
Deferred revenue	9,500	
Total Liabilities	<u>34,271</u>	<u>74,305</u>
<b>NET ASSETS</b>		
Unrestricted		
Operations	548,127	586,685
Board designated	3,072,175	2,279,871
Total Unrestricted	<u>3,620,302</u>	<u>2,866,556</u>
Temporarily restricted	1,742,194	1,656,902
Permanently restricted	2,764,437	2,737,337
Total Net Assets	<u>8,126,933</u>	<u>7,260,795</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 8,161,204</b>	<b>\$ 7,335,100</b>

See independent auditors' report and notes to financial statements

LONG BEACH PUBLIC LIBRARY FOUNDATION  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES AND SUPPORT</b>				
Grants and Contributions	\$ 660,234	\$ 887,867	\$ 27,100	\$ 1,575,201
Special events, net	123,232			123,232
In-kind goods and services	12,949	14,083		27,032
Change in value of beneficial interest in charitable remainder trust	(277)			(277)
Investment income, net	461,607	305,931		767,538
Other revenues	6,964			6,964
	<u>1,264,709</u>	<u>1,207,881</u>	<u>27,100</u>	<u>2,499,690</u>
<b>NET ASSETS RELEASED FROM RESTRICTION</b>				
	<u>1,122,589</u>	<u>(1,122,589)</u>		
<b>Total Revenues and Support</b>	<u>2,387,298</u>	<u>85,292</u>	<u>27,100</u>	<u>2,499,690</u>
<b>EXPENSES</b>				
Program services				
Family Learning Centers	345,692			345,692
Books and materials	880,164			880,164
Total Program Expenses	<u>1,225,856</u>			<u>1,225,856</u>
General and administrative	144,510			144,510
Fundraising	<u>263,186</u>			<u>263,186</u>
<b>Total Expenses</b>	<u>1,633,552</u>			<u>1,633,552</u>
<b>CHANGE IN NET ASSETS</b>	753,746	85,292	27,100	866,138
<b>BEGINNING NET ASSETS</b>	<u>2,866,556</u>	<u>1,656,902</u>	<u>2,737,337</u>	<u>7,260,795</u>
<b>ENDING NET ASSETS</b>	<u>\$ 3,620,302</u>	<u>\$ 1,742,194</u>	<u>\$ 2,764,437</u>	<u>\$ 8,126,933</u>

See independent auditors' report and notes to financial statements

LONG BEACH PUBLIC LIBRARY FOUNDATION  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES AND SUPPORT</b>				
Grants and Contributions	\$ 243,515	\$ 1,531,652	\$ 25,650	\$ 1,800,817
Special events, net	94,983			94,983
In-kind goods and services	46,827	6,424		53,251
Change in value of beneficial interest in charitable remainder trust	(3,583)			(3,583)
Investment income, net	131,288	131,781		263,069
Other revenues	5,215			5,215
	<u>518,245</u>	<u>1,669,857</u>	<u>25,650</u>	<u>2,213,752</u>
<b>NET ASSETS RELEASED FROM RESTRICTION</b>				
	<u>807,430</u>	<u>(807,430)</u>		
Total Revenues and Support	<u>1,325,675</u>	<u>862,427</u>	<u>25,650</u>	<u>2,213,752</u>
<b>EXPENSES</b>				
Program services				
Family Learning Centers	279,866			279,866
Books and materials	712,565			712,565
Total Program Expenses	<u>992,431</u>			<u>992,431</u>
General and administrative	179,134			179,134
Fundraising	<u>111,603</u>			<u>111,603</u>
Total Expenses	<u>1,283,168</u>			<u>1,283,168</u>
CHANGE IN NET ASSETS	42,507	862,427	25,650	930,584
BEGINNING NET ASSETS	<u>2,824,049</u>	<u>794,475</u>	<u>2,711,687</u>	<u>6,330,211</u>
ENDING NET ASSETS	<u>\$ 2,866,556</u>	<u>\$ 1,656,902</u>	<u>\$ 2,737,337</u>	<u>\$ 7,260,795</u>

See independent auditors' report and notes to financial statements

LONG BEACH PUBLIC LIBRARY FOUNDATION  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	December 31,	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 866,138	\$ 930,584
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Change in beneficial interest in charitable remainder trust	277	3,583
Realized (gains) losses on investments	(88,632)	16,088
Unrealized (gains) losses on investments	(542,771)	(138,525)
Depreciation	461	
(Increase) decrease in assets:		
Unconditional promises to give	232,087	(547,730)
Prepaid expenses	(14,559)	9,687
Increase (decrease) in liabilities:		
Accounts payable	(56,594)	57,063
Accrued expenses	7,060	6,468
Deferred revenue	9,500	
Net Cash Provided By Operating Activities	412,967	337,218
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of investments	1,488,858	1,962,494
Purchases of investments	(2,369,524)	(2,186,402)
Reinvested dividends	(10,572)	(13,140)
Purchase of property and equipment		(1,381)
Net Cash Used In Investing Activities	(891,238)	(238,429)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(478,271)	98,789
<b>BEGINNING CASH AND CASH EQUIVALENTS</b>	1,466,816	1,368,027
<b>ENDING CASH AND CASH EQUIVALENTS</b>	\$ 988,545	\$ 1,466,816
<b>SUPPLEMENTAL DISCLOSURES</b>		
Cash paid for interest	NONE	NONE
Income tax paid	NONE	NONE

See independent auditors' report and notes to financial statements



LONG BEACH PUBLIC LIBRARY FOUNDATION  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Expenses</u>
<b>SALARIES AND BENEFITS</b>				
Salaries and payroll taxes	\$ 64,274	\$ 45,608	\$ 221,747	\$ 331,629
Employee benefits	456	15,813	910	17,179
Total Salaries and Benefits	<u>64,730</u>	<u>61,421</u>	<u>222,657</u>	<u>348,808</u>
<b>OTHER EXPENSES</b>				
Bank and credit card fees	22	898	2,452	3,372
Board expense		1,648		1,648
Depreciation	369	92		461
Outside services	6,270	15,612	23,850	45,732
Dictionary day materials	19,225	416		19,641
Homework helpers	247,882		198	248,080
In-kind goods and services	4,856			4,856
Insurance		4,770		4,770
Mayor sponsored events	17,100			17,100
Office administration, supplies and other	3,843	27,575	3,233	34,651
Printing and mailing		8,490	8,024	16,514
Program materials	858,787			858,787
Rent	2,772	16,632	2,772	22,176
Software		6,956		6,956
Total Other Expenses	<u>1,161,126</u>	<u>83,089</u>	<u>40,529</u>	<u>1,284,744</u>
<b>TOTAL EXPENSES</b>	<u>\$ 1,225,856</u>	<u>\$ 144,510</u>	<u>\$ 263,186</u>	<u>\$ 1,633,552</u>

See independent auditors' report and notes to financial statements

LONG BEACH PUBLIC LIBRARY FOUNDATION  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016

	Program Services	General and Administrative	Fundraising	Total Expenses
<b>SALARIES AND BENEFITS</b>				
Salaries and payroll taxes	\$ 100,236	\$ 66,202	\$ 82,162	\$ 248,600
Employee benefits	220	7,643	440	8,303
Total Salaries and Benefits	<u>100,456</u>	<u>73,845</u>	<u>82,602</u>	<u>256,903</u>
<b>OTHER EXPENSES</b>				
Bank and credit card fees	20	799	2,182	3,001
Board expense		1,202		1,202
Outside services	17,158	40,038	15,535	72,731
Dictionary day materials	31,120	674		31,794
Homework helpers	297,238		238	297,476
In-kind goods and services	39,634			39,634
Insurance		3,841		3,841
Mayor sponsored events	54,355			54,355
Office administration, supplies and other	5,373	38,556	4,520	48,449
Printing and mailing		5,206	4,920	10,126
Program materials	445,471	267		445,738
Rent	1,606	9,636	1,606	12,848
Software		5,070		5,070
Total Other Expenses	<u>891,975</u>	<u>105,289</u>	<u>29,001</u>	<u>1,026,265</u>
<b>TOTAL EXPENSES</b>	<u>\$ 992,431</u>	<u>\$ 179,134</u>	<u>\$ 111,603</u>	<u>\$ 1,283,168</u>

See independent auditors' report and notes to financial statements

LONG BEACH PUBLIC LIBRARY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 1 – ORGANIZATION

The Long Beach Public Library Foundation (the “Foundation”) was incorporated to assist the Long Beach Public Library system in achieving its mission of meeting the information and learning needs of our culturally diverse and dynamic population. The Foundation’s mission is to enhance the Long Beach Public Library and encourage literacy and education for all members of the community. This is accomplished through raising private funds to support, but not supplant, the programs of the library including funding for programs, materials, equipment, and personnel related to the programs listed below:

**Family Learning Center Program:** The Foundation provides supplemental funding to support this core program of the Long Beach Public Library. Family Learning Centers provide both individuals and families with a safe, designated place to receive free personalized assistance with homework, job searches, résumé writing, English language learning, literacy and computer skills from specially-trained, and often bilingual, Learning Guides. Families can also access technology including computers, printers, tablets, and educational software to help them fulfill their life goals for work, education and personal growth.

**The Studio Program:** Furthering the resources of the Family Learning Center Program is The Studio, which opened at Main Library in April 2014 and the Michelle Obama Neighborhood Library in September 2016. This innovative digital creativity lab integrates STEAM and makerspace activities to mentor, engage, and inspire students to learn 21st century job skills. Studio Guides offer free workshops and classes on cutting-edge technologies, such as 3D printers, a broad collection of design software and online applications, and video and music editing software that are designed to teach science and engineering skills to youth. In 2016, a Mobile Studio was launched, enabling the library to bring these innovative tools and educational resources to each of its branches, and to schools, recreation centers, parks, community events, or wherever they are needed most in the Long Beach community.

**Dictionary Day:** In partnership with the Earl B. and Loraine H. Miller Foundation, the Library Foundation purchases and distributes a dictionary/thesaurus to every third-grader (typically around 5,600-5,700) in the Long Beach Unified School District. Word-themed events in branch libraries surround the distribution, engaging students and their families, bringing them into the library and instilling in them a love of reading and literacy.

LONG BEACH PUBLIC LIBRARY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 1 – ORGANIZATION (Continued)

The Library's annual 8-week Summer Reading Program is designed to encourage youth and their families to read regularly each day over school break, preventing "summer slide." The Program's community outreach events through the Long Beach Department of Parks and Recreation are designed to engage children who are not already coming into the library.

Launched in April of 2018, Dive into Reading is a part of the national 1,000 Books Before Kindergarten initiative that encourages parents to read to their newborns, infants, and toddlers in the years before public education begins.

**Books and Materials:** Many of the Foundation's fundraising efforts, grants, and endowments go toward the purchase of books and materials to help supplement and enrich the Long Beach Public Library's collection.

**Senior Services:** A large estate gift provides endowment interest to support the ongoing operational support for programs and services the senior library patrons, including the Homebound Reader program. The Homebound Reader program allows people who cannot visit the library, the opportunity to have personally selected books and materials delivered straight to their place of residence on a regular basis.

**SpecialConnect:** This program offers services designed for children with special needs and their caregivers. SpecialConnect offers books, toys, sensory bins, a privacy cube, reading list handouts, and a seating area. Additional services include specialized iPad apps, multisensory storytimes and movies, and partnerships with key organizations serving children with disabilities.

The Library Foundation also supports the Library's world of free online resources, including Career Online High School (a counselor-guided program which provides adults with a second chance to achieve a true high school diploma), Brainfuse Job Now (free job skills and résumé assistance), Brainfuse Help Now (live online homework help from tutors) and other programs for developing business skills, learning languages, downloading e-books, and screening films.

Keeping in line with the Long Beach Public Library Foundation's mission, our Foundation engages in advocacy activities to ensure the Library is well-funded by the City and open and available to all members of the community. The Library is a city department and primarily funded by the city's general fund, this means we spend time building relationships with key city leaders, namely the Mayor and City Council members, and making public comment at City Council meetings, particularly around budget season during which the Council votes on the Library budget.

LONG BEACH PUBLIC LIBRARY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 1 – ORGANIZATION (Continued)

We also build relationships and promote the library with other electeds such as school board members. In addition, we support advocacy initiatives for national and state-wide library funding.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Basis of Presentation

The net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire by the passage of time. Temporarily restricted resources whose restrictions are met in the same reporting period are recorded as unrestricted.

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

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Foundation considers cash on hand and cash in other depository institutions with an original maturity of three months or less to be cash equivalents.

Investments

The Foundation records investments at their fair market value. Contributed securities are stated at their market value on the date of donation. Fair market value is determined from quoted market prices. Realized gains and losses on sale of securities are determined based on the cost of the individual securities and the sale price at the date of sale.

LONG BEACH PUBLIC LIBRARY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments (Continued)

Unrealized gains and losses on marketable securities are calculated as the difference between cost and market of all securities on hand from one year to the next and reported in the statements of activities and changes in net assets.

Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give that is unconditional. Contributions that are not restricted by the donor are reported as increases in unrestricted net assets. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Foundation uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Property and Equipment

Property and equipment are carried at cost or if donated, at the fair market value at date of donation. Depreciation is calculated on the straight-line method over the estimated useful lives of three to seven years. Additions and improvements that increase the capacity or lengthen the useful lives of the assets are capitalized. Repairs and maintenance are expensed as incurred.

Donated Services and Goods

The Foundation recognizes the contribution of services if the services received require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services that do not meet the criteria shall not be recognized.

Donated goods are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated goods to a specific purpose.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or the nature of any donor restrictions. Restrictions met in the same reporting period are reported as unrestricted support.

LONG BEACH PUBLIC LIBRARY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The costs of providing services have been summarized on a functional basis in the statements of functional expenses. Certain costs and expenditures have been allocated among program, management and general and development activities based on management's estimates.

Income Tax Status

The Foundation is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue Code Section 23701(d). The Foundation is classified by the Internal Revenue Service as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(c)(2). Income for certain activities not directly related the Foundation's tax-exempt purpose is subject to unrelated business income taxation.

The Foundation evaluates uncertain tax positions whereby the effect of the uncertainty would be recorded if the tax positions will more likely than not be sustained upon examination. As of December 31, 2017, management does not believe the Foundation has any uncertain tax positions requiring accrual or disclosure. The Foundation is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in generally accepted accounting principles of the United States when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Organization has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (ASU 2016-02). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Organization is currently evaluating the impact of the adoption of the new standard on the financial statements.

LONG BEACH PUBLIC LIBRARY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In August 2016, the FASB released ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958). The update amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes relate to: (a) presentation of classes of net assets, (b) the presentation of underwater endowment funds and related disclosures, (c) recognition of the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) statement of functional expense, (e) disclosure of quantitative and qualitative information regarding liquidity and availability of resources; and a few smaller items.

The ASU is effective for fiscal years beginning after December 15, 2017. The Organization is currently evaluating the impact of the adoption of the new standard on the financial statements.

Reporting of Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 7, 2018, the date the financial statements were available to issue.

NOTE 3 – FAIR VALUE MEASUREMENTS

GAAP establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets and liabilities. The fair value hierarchy gives the highest priority to level 1 inputs.

Level 2: Valuations based on other observable inputs, which include quoted prices in active markets for similar assets and liabilities, either directly or indirectly. These inputs may include observable inputs such as interest rates that are observable at commonly quoted intervals.

Level 3: Valuations based unobservable inputs for assets and liabilities, which are typically based on an organization's own assumptions which are internally developed and estimated.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair measurement in its entirety.



LONG BEACH PUBLIC LIBRARY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

Fair values measured on a recurring basis

Fair values of assets measured on a recurring basis as of December 31, 2017, are as follows:

	Fair Value Measurements at December 31, 2017			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 988,545			\$ 988,545
Investments	6,743,562			6,743,562
Beneficial interest in charitable remainder trust			\$ 2,943	2,943
	<u>\$ 7,732,107</u>	<u>NONE</u>	<u>\$ 2,943</u>	<u>\$ 7,735,050</u>

Fair values of assets measured on a recurring basis as of December 31, 2016, are as follows:

	Fair Value Measurements at December 31, 2016			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 1,466,816			\$ 1,466,816
Investments	5,220,921			5,220,921
Beneficial interest in charitable remainder trust			\$ 3,220	3,220
	<u>\$ 6,687,737</u>	<u>NONE</u>	<u>\$ 3,220</u>	<u>\$ 6,690,957</u>

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

For the year ended December 31, 2017, changes in the valuation of the beneficial interest in charitable remainder trust are as follows:

December 31, 2016	\$ 3,220
Change in value	(277)
December 31, 2017	<u>\$ 2,943</u>

LONG BEACH PUBLIC LIBRARY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

For the year ended December 31, 2016, changes in the valuation of the beneficial interest in charitable remainder trust are as follows:

December 31, 2015	\$	6,803
Change in value		(3,583)
 December 31, 2016	 \$	 3,220

The Foundation recalculates the present value of its beneficial interest in the charitable remainder trust on an annual basis and records the change in value in the statements of activities and changes in net assets.

The Foundation carries investments in marketable securities with readily determinable fair values at their fair values in the statements of financial position. Marketable securities are managed by investment managers and held by a third-party trustee.

NOTE 4 – INVESTMENTS

As of the year ended December 31, 2017, investment assets consist of the following:

	Fair Market Value	Cost	Unrealized Gain/(Loss)
Exchange traded funds and closed-end funds	\$ 4,153,308	\$ 3,511,579	\$ 641,729
Mutual funds	2,585,928	2,634,645	(48,717)
Stocks	4,326	3,004	1,322
	\$ 6,743,562	\$ 6,149,228	\$ 594,334

As of the year ended December 31, 2016, investment assets consist of the following:

	Fair Market Value	Cost	Unrealized Gain/(Loss)
Exchange traded funds and closed-end funds	\$ 2,715,341	\$ 2,586,453	\$ 128,888
Mutual funds	2,505,580	2,584,669	(79,089)
	\$ 5,220,921	\$ 5,171,122	\$ 594,334

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

**NOTE 4 – INVESTMENTS (Continued)**

For the years ended December 31, 2017 and 2016, interest and investment income consisted of the following:

	December 31,	
	2017	2016
Interest and dividends	\$ 167,895	\$ 171,101
Realized (losses) gains	88,632	(16,088)
Unrealized gains	542,771	138,525
Investment expenses	(31,760)	(30,469)
Net investment income	\$ 767,538	\$ 263,069

**NOTE 5 – UNCONDITIONAL PROMISES TO GIVE, net**

Unconditional promises to give consist of the following as of:

	December 31,	
	2017	2016
Unconditional promises to give	\$ 409,043	\$ 647,030
Less: allowance for doubtful accounts		( 5,900)
Unconditional promises to give, net	\$ 409,043	\$ 641,130

Management considers all unconditional promises to give to be collectible, therefore, the Club did not recognize an allowance for uncollectible amounts for the fiscal year ended December 31, 2017.

The following is a yearly schedule of expected collections on unconditional promises to give:

<u>Years Ending</u> <u>December 31,</u>	
2018	\$ 399,043
2019	5,000
2020	5,000
Total	\$ 409,043

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NOTE 6 – PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following as of:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Property and equipment	\$ 29,733	\$ 29,733
Less: accumulated depreciation	<u>( 28,813)</u>	<u>( 28,352)</u>
Net	<u>\$ 920</u>	<u>\$ 1,381</u>

For the years ended December 31, 2017 and 2016, depreciation expense was \$461 and \$0, respectively.

NOTE 7 – BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUST

In December 2005, the Foundation was named as a residual beneficiary in a charitable gift annuity trust which is administered by a third party trustee. Upon death of the donor, the annual annuity is terminated and any remaining trust balance is paid to the Foundation. This charitable remainder trust provides for the payment of distributions to the donor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets, or a portion of the remaining assets, will be distributed to the Foundation.

For the years ended December 31, 2017 and 2016, assets held in the beneficial interest in the charitable remainder trust totaled \$2,943 and \$3,220, respectively. The assets are measured at fair value in the statements of financial position, which is the present value of the estimated future distributions the Foundation expects to receive over the charitable remainder trust's term.

Changes in the value of the asset are recorded as increases or decreases to the asset with a corresponding amount recorded in the statements of activities and changes in net assets. On an annual basis, the Foundation revalues the asset for distributions made to the designated beneficiaries based on actuarial assumptions. For the years ended December 31, 2017 and 2016, the present value of the estimated future payments is calculated using a discount rate of 2.6% and 1.8%, respectively, and applicable mortality tables.

NOTE 8 – BOARD DESIGNATED NET ASSETS

In November 2009, the Foundation's board of directors established the Jean and Charles Lane endowment fund in which net investment income generated by the fund may be appropriated by the Board to benefit the Long Beach Public Library's Family Learning Centers. Additional gifts have been designated in a similar manner since 2009.

LONG BEACH PUBLIC LIBRARY FOUNDATION  
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**NOTE 8 – BOARD DESIGNATED NET ASSETS (Continued)**

Undistributed income will remain in the fund as principal. The Foundation may at any time vote to board-designate an unrestricted donor gift, or temporarily set aside a portion of unrestricted funds for a specified purpose. A two-thirds vote (rounded down to the nearest whole number) of approval by the full board of directors is required to board-designate an unrestricted donor gift. The board, by a two-thirds vote of approval, may also vote to reverse a board-designation of unrestricted funds at any time. As of December 31, 2017 and 2016, board designated net assets were \$3,072,175 and \$2,279,871, respectively.

**NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS**

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

	December 31,	
	2017	2016
Books and materials	\$ 378,554	\$ 133,899
Family learning centers	401,914	595,471
Children's programs	60,380	103,280
Mark Twain Family Learning Center	72,145	34,977
Digital Archive	68,702	68,702
Michelle Obama Neighborhood Library	422,282	411,970
To support operations	52,717	38,153
Early childhood literacy	6,000	3,850
New main library	247,500	247,500
Summer reading program	100	19,100
Mayor sponsored events	31,900	
	\$ 1,742,194	\$ 1,656,902

Temporarily restricted net assets were released from donor restrictions either by incurring expenses, which satisfied the restricted purposes, or by the occurrences of other events specified by donors. During the years ended December 31, 2017 and 2016, temporarily restricted net assets released from restriction were \$1,122,589 and \$807,430, respectively.

**NOTE 10 – PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets as of December 31, 2017 and 2016, consist of endowment gifts. The endowment funds' original principal is restricted to remain intact in perpetuity. Income generated by these funds can be used for donor specific purposes.

LONG BEACH PUBLIC LIBRARY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 10 – PERMANENTLY RESTRICTED NET ASSETS (Continued)

For the years ended December 31, 2017 and 2016, permanently restricted net assets were restricted for the following purposes:

	December 31,	
	2017	2016
To support operations	\$ 283,786	\$ 283,786
Family Learning Centers	683,079	657,979
Mark Twain Family Learning Center	651,985	651,985
Literacy Programs	900,200	900,200
Books and materials	225,387	223,387
Michelle Obama Neighborhood Library	20,000	20,000
	\$ 2,764,437	, \$ 2,737,337

NOTE 11 – ENDOWMENT FUNDS

The Foundation's endowment consists of several individual donor-restricted funds and board-designated funds established for a variety of purposes, including support for library books and materials, senior services, Family Learning Centers, and Foundation operations. As required by GAAP, net assets associated with endowment funds, including funds designated by the board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

General Board Policy on Administration of Endowment Funds

The Foundation has interpreted the California Uniform Prudent Management of Institutional Funds Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets: (a) the original value of the 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, which is generally composed of investment income from the endowed investment, will be 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 UPMIFA, which became effective in California on January 1, 2009. When appropriated for expenditure, such assets will be reclassified to unrestricted net assets.

Investment Policy for Endowment Funds

The Foundation has utilized investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

LONG BEACH PUBLIC LIBRARY FOUNDATION  
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NOTE 11 – ENDOWMENT FUNDS (Continued)

Investment Policy for Endowment Funds (Continued)

As a result, the endowment assets are invested in a manner that is intended to produce results that, over the long-term, allow it to grow at a rate exceeding expected inflation.

This is consistent with the Foundation’s objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

SPENDING POLICY FOR ENDOWMENT FUNDS

Donor restricted

Certain endowment funds have donor stipulations requiring a portion of the investment return to be added to the permanent endowment to maintain its purchasing power. The Foundation utilizes the Consumer Price Index (CPI) as a guideline for determining this portion in periods where the endowment assets have generated investment income. Historically, the Foundation has expended annually all endowment investment earnings (excluding any funds with deficiencies due to unfavorable market fluctuations) in excess of the portion added to the permanent endowment to support the programs specified by the donors.

Board designated

The Foundation’s board may appropriate, from net investment income, support for the Library’s Family Learning Centers, but if the funds produce a net loss at the end of the year, the board will not appropriate any funds from principal for distribution.

As of December 31, 2017, endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted		\$ 442,778	\$ 2,764,437	\$ 3,207,215
Board designated	\$ 3,072,175			3,072,175
	<u>\$ 3,072,175</u>	<u>\$ 442,778</u>	<u>\$ 2,764,437</u>	<u>\$ 6,279,390</u>

LONG BEACH PUBLIC LIBRARY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 11 – ENDOWMENT FUNDS (Continued)

As of December 31, 2016, endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted		\$ 248,123	\$ 2,737,337	\$ 2,985,460
Board designated	\$ 2,279,871			2,279,871
	<u>\$ 2,279,871</u>	<u>\$ 248,123</u>	<u>\$ 2,737,337</u>	<u>\$ 5,265,331</u>

For the year ended December 31, 2017, changes in endowment assets were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning endowment assets	\$ 2,279,871	\$ 248,123	\$ 2,737,337	\$ 5,265,331
Contributions			27,100	27,100
Transfers	571,998			571,998
Investment appreciation	283,394	305,932		589,326
Amounts appropriated for expenditures	<u>( 63,088)</u>	<u>( 111,277)</u>		<u>( 174,365)</u>
Ending endowment assets	<u>\$ 3,072,175</u>	<u>\$ 442,778</u>	<u>\$ 2,764,437</u>	<u>\$ 6,279,390</u>



LONG BEACH PUBLIC LIBRARY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 11 – ENDOWMENT FUNDS (Continued)

For the year ended December 31, 2016, changes in endowment assets were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning endowment assets	\$ 2,000,824	\$ 168,282	\$ 2,711,687	\$ 4,880,793
Contributions			25,650	25,650
Transfers	222,306			222,306
Investment appreciation	101,446	131,781		233,227
Amounts appropriated for expenditures	( 44,705)	( 51,940)		( 96,645)
Ending endowment assets	<u>\$ 2,279,871</u>	<u>\$ 248,123</u>	<u>\$ 2,737,337</u>	<u>\$ 5,265,331</u>

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 UPMIFA requires the Foundation to retain as a fund of perpetual duration. For the years ended December 31, 2017 and 2016, there were no deficiencies of this nature.

NOTE 12 – IN-KIND CONTRIBUTIONS

For the years ended December 31, 2017 and 2016, the Foundation received use of its office facilities with an estimated rental value of \$22,176 and \$12,848, respectively. Additional in-kind goods of \$4,856 were recognized for the year ended December 31, 2017. For the year ended December 31, 2017, the Foundation recognized in-kind contributions of \$48,039 to support the Foundation's annual fundraising event, which consisted of donated auction items. This contribution has been recorded net against the corresponding event expenses in special events on the accompanying statements of activities and changes in net assets.

NOTE 13 – SPECIAL EVENTS

The Foundation conducts special events in order to assist in the program operations. All events are conducted in accordance with applicable federal, state, and local laws and ordinances. All revenues received from such events in excess of expenses are used for Foundation programs and operations.

LONG BEACH PUBLIC LIBRARY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 13 – SPECIAL EVENTS (Continued)

For the years ended December 31, special events revenue and expenses are as follows:

	December 31,	
	2017	2016
Revenue	\$ 243,999	\$ 171,625
Less: direct donor benefits	( 120,767)	( 76,642)
Special events, net	\$ 123,232	\$ 94,983

NOTE 14 – COMMITMENTS

Operating Lease

The Foundation is obligated under an operating lease for use of copier equipment. The lease term is for three years and commenced February 2016.

Operating Lease (Continued)

The following is a schedule of future minimum lease payments required under the lease as of:

Years Ending December 31,	
2018	\$ 2,880

NOTE 15 – CONTINGENCY AND CONCENTRATION

The Foundation is located in Long Beach, California, and its operations are largely dependent upon the local economy.

Credit Risks

Cash deposits in financial institutions may exceed federally insured limits at times during the year. As of December 31, 2017 and 2016, uninsured balances totaled \$736,450 and \$1,079,464, respectively. Cash deposited in financial institutions differs from cash presented in the statements of financial position due to timing differences.

Market and Interest Rate Risks

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain long-term investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.