

Madison Public Library Foundation, Inc.

Financial Report

December 31, 2018

MADISON PUBLIC LIBRARY FOUNDATION, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Madison Public Library Foundation, Inc.
Madison, Wisconsin

We have audited the accompanying financial statements of Madison Public Library Foundation, Inc., which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

The financial statements referred to above present fairly, in all material respects, the financial position of Madison Public Library Foundation, Inc. as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A to the financial statements, in 2018, the organization adopted new accounting guidance for the presentation of financial statements of Not-for-Profit entities. Our opinion is not modified with respect to this matter.

SVA Certified Public Accountants, S.C.

Madison, Wisconsin

April 1, 2019

MADISON PUBLIC LIBRARY FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 2,243,854
Restricted cash, libraries	48,202
Certificates of deposit	423,302
Unconditional promises to give, short-term	129,750
Prepaid expenses	15,017
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Total current assets	2,860,125

OTHER ASSETS

Investments - MCF pass thru fund	5,084
Beneficial interest in assets held by MCF	5,947,265
Unconditional promises to give, long-term, net	185,091
	<hr/>
Total other assets	6,137,440

TOTAL ASSETS

\$ 8,997,565

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 21,397
Accrued expenses	12,343
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Total current liabilities	33,740

NET ASSETS

Net assets without donor restrictions:	
Undesignated	465,431
Board designated - endowment	4,751,348
Board designated - other	70,000
	<hr/>
Total net assets without donor restrictions	5,286,779

Net assets with donor restrictions:

Net assets with donor restrictions - time or use:	
Endowment	296,677
Other	2,451,493
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Total net assets with donor restrictions - time or use 2,748,170

Net assets with donor restrictions - perpetual endowments 928,876

Total net assets with donor restrictions 3,677,046

Total net assets 8,963,825

TOTAL LIABILITIES AND NET ASSETS

\$ 8,997,565

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

MADISON PUBLIC LIBRARY FOUNDATION, INC.

STATEMENT OF ACTIVITIES

Year ended December 31, 2018

	Net assets without donor restrictions	Net assets with donor restrictions - time or use	Net assets with donor restrictions - perpetual endowments	Total
Changes in net assets:				
Public support and revenues:				
Contributions	\$ 677,604	\$ 1,959,509	\$ 17,711	\$ 2,654,824
Special event revenue	167,810	0	0	167,810
Investment income	17,641	0	0	17,641
Net investment loss on beneficial interest in assets held by MCF	(91,764)	(22,226)	(1,983)	(115,973)
Net assets released from restrictions:				
Restrictions released by donor	994,750	(990,306)	(4,444)	0
Total public support and revenues	1,766,041	946,977	11,284	2,724,302
Expenses:				
Program services:				
Grants and library programming	1,116,221	0	0	1,116,221
Book Festival	200,939			200,939
Capital campaigns	18,716	0	0	18,716
Total program services	1,335,876	0	0	1,335,876
Supporting services:				
Management and general	127,681	0	0	127,681
Fundraising	334,531	0	0	334,531
Total supporting services	462,212	0	0	462,212
Total expenses	1,798,088	0	0	1,798,088
Change in net assets	(32,047)	946,977	11,284	926,214
Net assets, beginning	5,318,826	1,801,193	917,592	8,037,611
Net assets, ending	\$ 5,286,779	\$ 2,748,170	\$ 928,876	\$ 8,963,825

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

MADISON PUBLIC LIBRARY FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2018

	Program services				Supporting services			Total expenses
	Grants and library programming	Book Festival	Capital campaigns	Total program services	Management and general	Fundraising	Total supporting services	
Expenses:								
Salaries and benefits	\$ 50,291	\$ 91,552	\$ 14,223	\$ 156,066	\$ 37,962	\$ 227,772	\$ 265,734	\$ 421,800
Grants	1,010,510	0	0	1,010,510	0	0	0	1,010,510
Conferences and training	479	805	0	1,284	312	1,874	2,186	3,470
Insurance	707	809	115	1,631	397	2,379	2,776	4,407
Data processing and website	3,762	0	230	3,992	971	5,826	6,797	10,789
Fees, dues and subscriptions	0	405	1,743	2,148	13,552	0	13,552	15,700
Events	42,459	27,276	0	69,735	0	2,875	2,875	72,610
Occupancy	569	1,100	181	1,850	450	2,700	3,150	5,000
Office supplies	2,356	1,463	249	4,068	989	5,937	6,926	10,994
Printing and postage	1,083	677	285	2,045	2,045	19,971	22,016	24,061
Professional services	0	17,868	1,282	19,150	48,421	2,984	51,405	70,555
Professional services - direct mail	0	0	0	0	0	47,330	47,330	47,330
Author fees and related costs	0	35,679	0	35,679	0	0	0	35,679
Publicity and marketing	2,398	17,263	114	19,775	19,565	10,067	29,632	49,407
Travel and meals	1,607	909	0	2,516	612	3,673	4,285	6,801
Other	0	5,133	294	5,427	2,405	1,143	3,548	8,975
Total expenses	\$ 1,116,221	\$ 200,939	\$ 18,716	\$ 1,335,876	\$ 127,681	\$ 334,531	\$ 462,212	\$ 1,798,088

MADISON PUBLIC LIBRARY FOUNDATION, INC.

STATEMENT OF CASH FLOWS

Year ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 926,214
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Net investment loss on beneficial interest in assets held by MCF	115,973
Contributions restricted for endowment	(17,711)
Donated investments - MCF pass thru	(1,054,050)
Proceeds from sale of donated investments - MCF pass thru	1,055,938
Increase (decrease) in cash due to changes in:	
Restricted cash, libraries	(2,594)
Unconditional promises to give	79,343
Prepaid expenses	(1,512)
Accounts payable	10,918
Grants payable	(30,000)
Accrued expenses	2,776
	<hr/>
Net cash provided by operating activities	1,085,295

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from maturities of certificates of deposit	509,550
Transfers to beneficial interest in assets held by MCF	(325,553)
Distributions from beneficial interest in assets held by MCF	196,410
	<hr/>
Net cash provided by investing activities	380,407

CASH FLOWS FROM FINANCING ACTIVITIES

Contributions restricted for endowment	17,711
	<hr/>
Change in cash and cash equivalents	1,483,413
Cash and cash equivalents:	
Beginning	760,441
	<hr/>
Ending	<u>\$ 2,243,854</u>

SUPPLEMENTAL SCHEDULES OF NONCASH ACTIVITIES

Donated investments	<u>\$ 1,054,050</u>
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The accompanying notes are an integral part of these financial statements.

MADISON PUBLIC LIBRARY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE A -- Nature of business and significant accounting policies

Nature of business

Madison Public Library Foundation, Inc. (the foundation) was formed in 1993 and is incorporated as a not-for-profit organization. The foundation's purpose is to develop programming to focus attention on public library services, facilities, and needs in the Madison, Wisconsin area and to receive, manage, and distribute funds exclusively for the benefit of the Madison Public Library.

A summary of significant accounting policies follows:

Basis of accounting

The financial statements of the foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of presentation

Under accounting principles generally accepted in the United States of America (U.S. GAAP), the organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets with donor restrictions have been limited by donor-imposed time or purpose restrictions or are required to be maintained in perpetuity. Included in net assets without donor restrictions are voluntary board-approved designations for specific purposes, projects, or investments.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Exempt status

The foundation is exempt from income taxes under Internal Revenue Code Section 501(c)(3) as a public charity and not a private foundation. The foundation is also exempt from Wisconsin income tax.

Cash and cash equivalents

For purposes of reporting cash flows, the organization considers all investments purchased with an original maturity of three months or less to be cash equivalents, with the exception of cash not available to the organization due to restrictions placed on it.

The foundation maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The foundation has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

MADISON PUBLIC LIBRARY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE A -- Nature of business and significant accounting policies (Continued)

Restricted cash, libraries

Restricted cash, libraries consists of funds held by the foundation for the benefit of the following:

Monroe Street Library League	\$	13,988
Friends of Lakeview Library		<u>34,214</u>
Total	\$	<u>48,202</u>

Certificates of deposit

Certificates of deposit with original maturities greater than 3 months and remaining maturities of 12 months or less are classified as current assets on the statement of financial position. Certificates of deposit bear interest of 1.50%, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

Promises to give

Unconditional promises to give are recognized as revenue or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Uncollectible promises are written off after management has used reasonable collection efforts and determined the promises will not be collected.

Furniture and equipment

Furniture and equipment is stated at cost. Depreciation is computed on the straight-line method based on an estimated useful life of five years. Furniture and equipment was \$11,326 and was fully depreciated as of December 31, 2018.

Maintenance and repairs of furniture and equipment are charged to operations, and major improvements are capitalized. Upon retirement, sale or other disposition of equipment the cost and accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is included in operations.

Website development costs

Website development costs are stated at cost. Amortization of website development costs is computed on the straight-line method based upon the estimated useful lives of the assets, generally three years. Website development costs were \$14,793 and were fully amortized as of December 31, 2018.

Capitalization policy

The foundation's policy is to capitalize equipment with a unit cost of \$1,500 or greater and a useful life of more than one year.

MADISON PUBLIC LIBRARY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE A -- Nature of business and significant accounting policies (Continued)

Impairment of long-lived assets

The foundation reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Investments

Purchased investments are recorded at fair value, and donated investments are recorded as contributions at fair value on the date of receipt. Realized gains and losses on sales of investments are determined on the basis of specific identification of the cost of the security sold.

Donated services and materials

Donated services that create or enhance non-financial assets or that require specialized skill, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their estimated fair value in the period received. Donated materials are recorded at their estimated fair value in the period received.

Revenue recognition

Contributions are recognized when received.

Donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished, such as the payment of expenses related to the restriction), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Interest, dividends, external investment fees, gains and losses on investments are reported as an increase or decrease in net assets without donor restrictions unless explicitly restricted by donors.

Expense allocation

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Each employee of the foundation works in a primary program area. Salaries and benefits are allocated on the basis of estimates of time. Non-personnel expenses are attributed to individual programs or supporting function. In certain instances, a portion of the expense is identifiable with a specific program, while the remaining amount is allocated to management and general and/or fundraising.

MADISON PUBLIC LIBRARY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE A -- Nature of business and significant accounting policies (Continued)

New accounting pronouncement

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The foundation has adjusted the presentation of its financial statements accordingly. The new standards change the following aspects of the foundation's financial statements:

- a. The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- b. The unrestricted net asset class has been renamed net assets without donor restrictions.
- c. A new statement of functional expenses has been added to present an analysis of expenses by functional and natural classifications.
- d. The classification has changed from unrestricted net assets to net assets with donor restrictions for the \$11,839 deficit on one endowment fund, which has an investment with a fair value of \$98,927 and an original gift amount of \$110,766, and the foundation has disclosed how this underwater situation effects spending from the fund (Note F).
- e. The financial statements include a new disclosure about liquidity and availability of resources (Note J).

Subsequent events

These financial statements have not been updated for subsequent events occurring after April 1, 2019, which is the date these financial statements were available to be issued. The foundation has no responsibility to update these financial statements for events and circumstances occurring after this date.

MADISON PUBLIC LIBRARY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE B -- Promises to give

Unconditional promises to give, net

Unconditional promises to give, net as of December 31, 2018, are as follows:

Pinney Branch Capital Campaign	\$ 8,000
Bookmobile	268,000
Goodman South Madison Library renovations	<u>51,000</u>
Total	<u>\$ 327,000</u>

Unconditional promises to give, net as of December 31, 2018 are as follows:

Receivable in less than one year	\$ 129,750
Receivable in one to five years	<u>197,250</u>
Total unconditional promises to give	327,000
Less discount to net present value	<u>(12,159)</u>
Unconditional promises to give, net	<u>\$ 314,841</u>

Unconditional promises to give receivable in one year or more are discounted to net present value using a discount rate of 3.25% as of December 31, 2018. Unconditional promises to give receivable in less than one year are measured at net realizable value which approximates fair value.

Conditional promises to give

During 2017, the foundation received restricted grants totaling \$155,400 that contained donor conditions. The foundation may receive up to \$65,400 for renovations to the teen area of the Goodman South Madison Library and up to \$90,000 for renovations to the children's area of the Goodman South Madison Library. Since these grants are promises conditioned on completing the renovation work at the Goodman South Madison Library, the amounts are not recorded as contribution revenue until the donor conditions are met. In 2018, the renovations for the teen area of the Goodman South Madison Library were completed and the foundation received and recorded \$65,400 as contribution revenue as the conditions were met. Renovations to the children's area of the Goodman South Madison Library totaling \$30,600 were completed and the foundation received and recorded this amount as contribution revenue in 2018. As of December 31, 2018, conditional promises to give were \$59,400.

MADISON PUBLIC LIBRARY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE C -- Beneficial interest in assets held by Madison Community Foundation (MCF)

The foundation has established various agency endowments at MCF. The foundation recognizes the fair value of contributions to the agency endowments as support when received. When the foundation transfers the agency endowment funds (the Fund) to MCF, it recognizes the transfers as a decrease in cash and the balances are presented on the statement of financial position as increases to beneficial interest in assets held by MCF.

Under the provisions of MCF's governing instruments and applicable regulations, the Board of Governors of MCF (the Board) have the power to modify any restriction or condition on, or direction as to, the timing, manner, or character of distributions for any specified charitable purposes or foundations if, in the judgment of the Board, such direction restrictions or conditions become, in effect, unnecessary, incapable of fulfillment, or inconsistent with any distribution policy adopted by MCF or with the charitable needs of the greater Madison community.

MCF will normally distribute part of the Fund to the foundation at least annually so long as the foundation maintains its Federal tax-exempt status. This distribution policy is subject to change by the Board. The purpose of these grants will be to enable the foundation to carry out its charitable and exempt purposes. The percentage distribution is reviewed periodically by the Board and is applied to the average value of the assets in the Fund over the prior twenty quarters.

The balances of the individual agency endowments held at MCF as of December 31, 2018 are as follows:

Elizabeth Moon Proctor Scholarship & Professional Development Fund	\$ 61,612
Hawthorne Library Endowment Fund	21,380
Judy P. Olson Book Discussion Kit Fund	13,365
Lakeview Library Endowment Fund	110,420
Madison Public Library Foundation Endowment Fund	4,751,349
Monroe Street Brach Endowment Fund	23,269
Pinney Library Endowment Fund	49,790
Print Books Purchase Fund	98,928
Sequoia Branch Endowment Fund	326,618
South Madison Branch Endowment Fund	188,153
Central Library Endowment Fund	161,117
Meadowridge Branch Endowment Fund	114,087
Alicia Ashman Library Endowment Fund	<u>27,177</u>
Total	<u>\$ 5,947,265</u>

MADISON PUBLIC LIBRARY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE D -- Fair value disclosure

The fair value measurement for the categories of assets that are measured at fair value on a recurring basis are as follows:

		Fair value measurement using		
12/31/18	Quoted prices in active markets for identical inputs (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	
<u>Assets</u>				
MCF pass thru fund ¹	\$ 5,084	\$ 0	\$ 5,084	
Beneficial interest in assets held by MCF ²	5,947,265	0	5,947,265	
Unconditional promises to give, long-term, net ³	185,091	0	0	
	\$ 6,137,440	\$ 0	\$ 5,952,349	

1. The foundation has entered into an agreement to hold funds in an MCF pass thru fund which represent donations or pledge payments received via a stock transfer. MCF has agreed to accept these donations on behalf of the foundation. MCF sells the stock on the date it is received and remits the cash proceeds to the foundation. The MCF pass thru fund is not actively traded and significant other observable inputs are not available. Thus, the fair value of the pass thru fund is measured at the proportional share of the underlying assets as reported to the foundation by MCF.

2. The foundation's beneficial interest in assets held by MCF represents an agreement between the foundation and MCF in which the foundation transfers assets to MCF in exchange for future distributions. The beneficial interest is not actively traded and significant other observable inputs are not available. Thus, the fair value of the beneficial interest is measured at the proportional share of the underlying assets as reported to the foundation by MCF. Little information about those assets is released publicly. The estimated value does not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. The change in value of the beneficial interest included in the change in net assets is reported as investment return on the statement of activities.

3. The amount reported for unconditional promises to give, long-term, net approximates fair value based on the net present value of pledges receivable using the discount rate as described in Note B.

MADISON PUBLIC LIBRARY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE D -- Fair value disclosure (Continued)

Assets measured at fair value on a recurring basis using significant unobservable inputs (level 3):

MCF pass thru fund assets held as of December 31, 2018:

Balance, beginning	\$ 6,972
Stock donations	1,054,050
Distributions	(1,045,398)
Fees	<u>(10,540)</u>
Balance, ending	<u>\$ 5,084</u>

Beneficial interest in assets held by MCF as of December 31, 2018:

Balance, beginning	\$ 5,934,095
Transfers in	325,553
Withdrawals	(196,410)
Net investment loss	<u>(115,973)</u>
Balance, ending	<u>\$ 5,947,265</u>

NOTE E -- Net assets

Net assets without donor restrictions

Net assets without donor restrictions consists of net assets available for operations of the foundation and net assets designated by the foundation's board of directors for the following purposes as of December 31, 2018:

Madison Public Library Foundation Endowment	\$ 4,751,348
Program Venture Fund	70,000
Undesignated	<u>465,431</u>
Total	<u>\$ 5,286,779</u>

MADISON PUBLIC LIBRARY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE E -- Net assets (Continued)

Net assets with donor restrictions – time or use

Net assets with donor restrictions – time or use include assets set aside in accordance with donor restrictions as to time or use and are available for the following purposes as of December 31, 2018:

Ashman Branch	\$	14,604
Ashman Endowment		2,652
Book Festival		599,238
Central Branch		145
Central Endowment		10,273
General Library		433,582
Hawthorne Branch		1,128
Hawthorne Endowment		22,230
Judy P. Olson Book Discussion Kit Endowment		13,365
Lakeview Branch		518,861
Friends of Lakeview Library		34,214
Lakeview Endowment		110,880
Meadowridge Branch		22,103
Meadowridge Endowment		6,222
Monroe Branch		7,004
Monroe Library League		13,988
Monroe Endowment		3,688
Pinney Branch		(556)
Pinney Capital Campaign		727,204
Pinney Endowment		51,742
Proctor Endowment		5,041
Sequoia Branch		453
Sequoia Endowment		41,352
South Madison Branch		86,497
South Madison Endowment		<u>28,275</u>
Total	\$	<u>2,748,170</u>

The foundation's solicitations for capital projects indicate that contributions received in excess of the amount needed for the particular project will be used to establish an endowment fund, the income from which can be used to support the particular library branch location.

MADISON PUBLIC LIBRARY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE E -- Net assets (Continued)

Net assets with donor restrictions – perpetual endowments

Net assets with donor restrictions – perpetual endowments include assets set aside in perpetuity in accordance with donor restrictions and as of December 31, 2018 consist of the following:

Ashman Branch Endowment Fund	\$	36,470
Elizabeth Moon Proctor Scholarship & Professional Development Fund		51,364
Monroe Branch Endowment Fund		20,020
Print Books Purchase Fund		98,927
Sequoia Branch Endowment Fund		293,041
South Madison Branch Endowment Fund		169,342
Central Branch Endowment Fund		150,792
Meadowridge Branch Endowment Fund		<u>108,920</u>
Total	\$	<u>928,876</u>

NOTE F – Endowments

The foundation's endowments consist of 13 individual funds established for a variety of purposes. Its endowments include both donor-restricted funds and funds designated by the board of directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The foundation has interpreted Wisconsin's enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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. However, the foundation has notified its donors that they reserve the right to make a distribution from their funds even if the value of the fund drops below the amount of the initial gift. In accordance with Wisconsin's enacted version of UPMIFA, the foundation expects it will need to consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the foundation, and (7) the foundation's investment policies.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires the foundation to retain as a fund of perpetual duration. Deficiencies of this nature exist in one donor-restricted endowment fund, which has an original gift value of \$110,766, a current fair value of \$98,927 and a deficiency of \$11,839 as of December 31, 2018. These deficiencies resulted from unfavorable market fluctuations and continued appropriation of the fund for certain programs that was deemed prudent by the board of directors.

MADISON PUBLIC LIBRARY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE F -- Endowments (Continued)

The foundation has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations. The governing board appropriated for expenditure \$4,444 from the underwater endowment fund during the year, which represents approximately 4% of the fund.

The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the original investment of the endowment. Endowment assets include those assets of donor-restricted funds that the foundation must hold in perpetuity. Endowment assets also include board-designated funds that are held, as directed by the board of directors, for current and future needs. Under this policy, as approved by the board of directors, all endowment assets are invested in a manner that is intended to produce returns to fund the scholarships, print books purchases, and income streams for certain branch libraries while assuming a moderate level of investment risk.

To satisfy its long-term rate-of-return objectives, the foundation relies on MCF's return strategy in which investment returns are achieved through both realized and unrealized gains/loss and interest and dividends. The foundation, through MCF, 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.

Endowment net asset composition by type is as follows:

	<u>Net assets without donor restrictions</u>	<u>Net assets with donor restrictions - time or use</u>	<u>Net assets with donor restrictions - perpetual endowments</u>
<u>December 31, 2018</u>			
Donor restricted endowment funds	\$ 0	\$ 296,677	\$ 928,876
Board-designated endowment funds	<u>4,751,348</u>	<u>0</u>	<u>0</u>
	<u>\$ 4,751,348</u>	<u>\$ 296,677</u>	<u>\$ 928,876</u>

MADISON PUBLIC LIBRARY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE F -- Endowments (Continued)

Change in endowment net asset activity by type is follows:

	<u>Net assets without donor restrictions</u>	<u>Net assets with donor restrictions - time or use</u>	<u>Net assets with donor restrictions - perpetual endowments</u>
<u>December 31, 2018</u>			
Balance, beginning	\$ 4,746,124	\$ 291,246	\$ 917,592
Contributions	257,536	61,578	17,711
Amounts released for expenditure	(159,398)	(34,509)	(4,444)
Net investment loss	<u>(92,914)</u>	<u>(21,638)</u>	<u>(1,983)</u>
	<u>\$ 4,751,348</u>	<u>\$ 296,677</u>	<u>\$ 928,876</u>

NOTE G -- Mohaupt Fund for the Sequoya Branch Library

In May 2011, Alvin and Ruth Mohaupt established the Mohaupt Fund for the Sequoya Branch Library (the Mohaupt Fund). MCF holds and manages the Mohaupt Fund and treats the assets as a component fund. The balance held in the Mohaupt Fund is not included in the foundation's financial statements as MCF retains variance power over the assets. Any distributions from the Mohaupt Fund will help fund the foundation's charitable and exempt purposes. Distributions from the Mohaupt Fund totaled \$3,829 for the year ended December 31, 2018. The Mohaupt Fund had a fair value of \$84,810 as of December 31, 2018.

NOTE H -- Lease commitments

The foundation entered into an operating lease for office space from the City of Madison which expires on July 31, 2019. The lease requires an annual payment of \$5,000 and is automatically renewable for successive one-year terms unless terminated in accordance with the lease agreement.

NOTE I -- Pension plan

The foundation's Defined Contribution Employee 401(k) Safe Harbor Retirement Plan covers all employees age 18 or over. The foundation matches contributions to the plan up to 5% of the individual participant's compensation. Pension plan expense totaled \$11,477 for the year ended December 31, 2018.

MADISON PUBLIC LIBRARY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE J -- Availability of financial assets and liquidity

The foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose or time restrictions. It also receives gifts to establish endowments that will exist in perpetuity. When a donor's restrictions requires resources to be used in a particular manner or in a future period, the foundation must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the foundation's liquidity management and reserve and surplus policy, it strives to maintain an operating reserve equal to six months of general expenditures. Financial assets in excess of daily cash requirements are invested in certificates of deposit and money market funds.

The following reflects the foundation's financial assets as of December 31, 2018 reduced by amounts not available for general use because of donor-imposed restrictions or internal designations, within one year of the statement of financial position date.

Financial assets as of December 31, 2018	\$ 8,982,548
Less those unavailable for general expenditures within one year due to:	
Restricted by donor with time or purpose restrictions	(2,451,493)
Board designated endowment funds	(4,751,348)
Donor restricted endowment funds	<u>(1,225,553)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 554,154</u>