

NEWPORT BEACH PUBLIC LIBRARY FOUNDATION
FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Newport Beach Public Library Foundation

Opinion

We have audited the accompanying financial statements of Newport Beach Public Library Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Newport Beach Public Library Foundation as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Newport Beach Public Library Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Newport Beach Public Library Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

INDEPENDENT AUDITORS' REPORT (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Newport Beach Public Library Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Newport Beach Public Library Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Guzman & Gray, CPAs
Long Beach, CA
September 27, 2023

NEWPORT BEACH PUBLIC LIBRARY FOUNDATION
STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED JUNE 30, 2023

ASSETS

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 397,831	\$ 2,892,009	\$ 3,289,840
Unconditional promises to give, net	2,390		2,390
Total Current Assets	<u>400,221</u>	<u>2,892,009</u>	<u>3,292,230</u>
OTHER ASSETS			
Investments		2,968,292	2,968,292
Total Other Assets		<u>2,968,292</u>	<u>2,968,292</u>
PROPERTY AND EQUIPMENT, NET	<u>5,617</u>		<u>5,617</u>
TOTAL ASSETS	<u>\$ 405,838</u>	<u>\$ 5,860,301</u>	<u>\$ 6,266,139</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES			
Accounts Payable	\$ 3,411		\$ 3,411
Accrued Liabilities	16,357		16,357
Total Current Liabilities	<u>19,768</u>		<u>19,768</u>
NET ASSETS			
Without Donor Restriction	386,070		386,070
With Donor Restriction		\$ 5,860,301	5,860,301
Total Net Assets	<u>386,070</u>	<u>5,860,301</u>	<u>6,246,371</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 405,838</u>	<u>\$ 5,860,301</u>	<u>\$ 6,266,139</u>

See independent auditors' report and notes to the financial statements

NEWPORT BEACH PUBLIC LIBRARY FOUNDATION
STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED JUNE 30, 2022

ASSETS

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 380,428	\$ 30,010	\$ 410,438
Unconditional promises to give, net - current	2,125		2,125
Prepaid Expense	737		737
Total Current Assets	<u>383,290</u>	<u>30,010</u>	<u>413,300</u>
OTHER ASSETS			
Unconditional Promises to Give, net - Non-Current	3,796		3,796
Investments		2,676,233	2,676,233
Total Other Assets	<u>3,796</u>	<u>2,676,233</u>	<u>2,680,029</u>
PROPERTY AND EQUIPMENT, NET	<u>2,219</u>		<u>2,219</u>
TOTAL ASSETS	<u>\$ 389,305</u>	<u>\$ 2,706,243</u>	<u>\$ 3,095,548</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES			
Accounts Payable	\$ 14,662		\$ 14,662
Accrued Liabilities	18,418		18,418
Total Current Liabilities	<u>33,080</u>		<u>33,080</u>
NET ASSETS			
Without Donor Restriction	356,225		356,225
With Donor Restriction		\$ 2,706,243	2,706,243
Total Net Assets	<u>356,225</u>	<u>2,706,243</u>	<u>3,062,468</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 389,305</u>	<u>\$ 2,706,243</u>	<u>\$ 3,095,548</u>

See independent auditors' report and notes to the financial statements

NEWPORT BEACH PUBLIC LIBRARY FOUNDATION
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2023

	Without Donor Restriction	With Donor Restriction	Total
SUPPORT AND REVENUES:			
Contributions and bequests	\$ 516,849	\$ 2,881,313	\$ 3,398,162
Program revenues	78,001		78,001
Investments, net		292,059	292,059
Special events, net of donor benefit expense of \$11,432	16,168		16,168
Interest Income	56,571		56,571
In-kind goods	2,500		2,500
Net assets released from restrictions	19,314	(19,314)	
Total support and revenues	689,403	3,154,058	3,843,461
EXPENSES:			
Program services	534,456		534,456
Supporting services:			
Management and general	75,622		75,622
Fundraising	49,480		49,480
Total expenses	659,558		659,558
INCREASE (DECREASE) IN NET ASSETS	29,845	3,154,058	3,183,903
NET ASSETS, BEGINNING OF YEAR	356,225	2,706,243	3,062,468
NET ASSETS, END OF YEAR	\$ 386,070	\$ 5,860,301	\$ 6,246,371

See independent auditors' report and notes to the financial statements

NEWPORT BEACH PUBLIC LIBRARY FOUNDATION
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2022

	Without Donor Restriction	With Donor Restriction	Total
SUPPORT AND REVENUES:			
Contributions and bequests	\$ 479,937	\$ 30,010	\$ 509,947
Program revenues	80,575		80,575
Paycheck Protection Program grant	100,737		100,737
Investments, net	(584,053)	116,264	(467,789)
In-kind goods	5,045		5,045
Net assets released from restrictions			
Total support and revenues	82,241	146,274	228,515
EXPENSES:			
Program services	515,200		515,200
Supporting services:			
Management and general	68,365		68,365
Fundraising	41,362		41,362
Total expenses	624,927		624,927
INCREASE (DECREASE) IN NET ASSETS	(542,686)	146,274	(396,412)
NET ASSETS, BEGINNING OF YEAR	898,911	2,559,969	3,458,880
NET ASSETS, END OF YEAR	\$ 356,225	\$ 2,706,243	\$ 3,062,468

See independent auditors' report and notes to the financial statements

NEWPORT BEACH PUBLIC LIBRARY FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2023

	<u>Supporting Services</u>			Total Expenses
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
Salaries	\$ 217,190	\$ 12,776	\$ 25,552	\$ 255,518
Payroll Taxes	17,097	1,006	2,012	20,115
Total Salary and related expenses	<u>234,287</u>	<u>13,782</u>	<u>27,564</u>	<u>275,633</u>
Newport Beach Public Library	48,555			48,555
Depreciation and Amortization		1,467		1,467
Equipment	6,392	6,392		12,784
Insurance		18,531		18,531
Bank Charges	12,580	1,573	1,572	15,725
Printing and Reproduction	23,096	2,021	3,753	28,870
Postage	2,698	337	337	3,372
Office Supplies	4,383	548	548	5,479
Outside Services	106,105			106,105
Miscellaneous	6,256	736	368	7,360
Dues and Subscriptions			2,682	2,682
Professional Fees	32,572	25,360	8,104	66,036
Website Management	13,658		4,552	18,210
Travel	43,874	4,875		48,749
Total Program and Supporting Services Expenses	<u>\$ 534,456</u>	<u>\$ 75,622</u>	<u>\$ 49,480</u>	<u>\$ 659,558</u>

See independent auditors' report and notes to the financial statements

NEWPORT BEACH PUBLIC LIBRARY FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2022

	<u>Supporting Services</u>			Total Expenses
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
Salaries	\$ 201,887	\$ 11,876	\$ 23,752	\$ 237,515
Payroll Taxes	16,341	961	1,923	19,225
 Total Salary and related expenses	 <u>218,228</u>	 <u>12,837</u>	 <u>25,675</u>	 <u>256,740</u>
Newport Beach Public Library	35,105			35,105
Awards	1,200			1,200
Program	11,344			11,344
Depreciation and Amortization		772		772
Equipment	5,134	5,134		10,268
Insurance		18,014		18,014
Bank Charges	6,452	806	806	8,064
Printing and Reproduction	21,476	1,878	3,490	26,844
Postage	5,276	660	660	6,596
Office Supplies	7,275	910	910	9,095
Outside Services	109,250			109,250
Miscellaneous	4,943	582	291	5,816
Dues and Subscriptions			3,672	3,672
Professional Fees	33,892	22,544		56,436
Website Management	17,571		5,858	23,429
Travel	38,054	4,228		42,282
 Total Program and Supporting Services Expenses	 <u>\$ 515,200</u>	 <u>\$ 68,365</u>	 <u>\$ 41,362</u>	 <u>\$ 624,927</u>

See independent auditors' report and notes to the financial statements

NEWPORT BEACH PUBLIC LIBRARY FOUNDATION
STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 3,183,903	\$ (396,412)
Adjusted to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation and amortization expense	1,467	772
Realized gain on investment securities	(11,010)	(172,644)
Unrealized (gain) loss on investments	(233,952)	733,928
Paycheck Protection Program loan forgiveness		(100,737)
Changes in assets and liabilities:		
(Increase) decrease in:		
Unconditional promises to give	1,406	4,625
Prepaid expenses	737	(737)
Investment cash	33	5,025
Increase (decrease) in liabilities:		
Accounts payable	(11,251)	7,432
Accrued liabilities	(2,061)	(1,094)
	2,929,272	80,158
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from redemption of investment securities	12,206	9,975
Dividend income reinvested	(62,076)	(108,452)
	(49,870)	(98,477)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,879,402	(18,319)
BEGINNING CASH AND CASH EQUIVALENTS	410,438	428,757
ENDING CASH AND CASH EQUIVALENTS	\$ 3,289,840	\$ 410,438

See independent auditors' report and notes to the financial statements

NEWPORT BEACH PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

NOTE 1 – ORGANIZATION

The Newport Beach Public Library Foundation (the Foundation) is a California not-for-profit organization established to raise supplemental funds from the community to ensure the ongoing excellence of the Newport Beach Public Library (the Library). In addition to annual fund raising activities, the Foundation has established an endowment fund to provide an on-going source of support for the Library.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

Net Asset Presentation

The accompanying financial statements of the Foundation are prepared on the accrual basis of accounting in accordance with accounting principles accepted in the United States of America. Net assets and revenue, gains, and losses are classified based on donor-imposed restrictions. Accordingly, net assets are classified and reported as:

Net assets without donor restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. The Foundation's board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Net assets released from donor restrictions

Net assets are released by incurring expenses satisfying the restriction or by occurrence of other events specified by donors.

NEWPORT BEACH PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Contributions

Contributions received are recorded as either increases in net assets without donor restrictions or increases in net assets with donor restrictions depending on the existence and/or the nature of any donor restrictions. Contributions whose restrictions are met or expired in the same fiscal year are recorded as increases in net assets without donor restrictions.

Public Support and Revenue

Unconditional promises to give are recorded as received. Unconditional promises to give due in the next year are reflected as current promises to give and are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reflected as long-term promises to give and are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts. The majority of the promises to give are received from a broad base of Orange County contributors as a result of the annual campaign. An allowance for uncollectible promises is provided based on management's evaluation of potential uncollectible promises receivable at year end.

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, the related net assets with donor restriction are reclassified to net assets without donor restriction and reported in the statement of activities as net assets released from restrictions. Donor-restricted support received and used for its restricted purpose in the same reporting period is reported as net assets without restriction.

Endowment contributions are restricted by the donor. Investment earnings and losses remain in net assets with donor restriction to be used as an ongoing source of support of the Library. The target goal of the Foundation is to allocate approximately 5% of the average market value of the Endowment Fund to the Library annually.

NEWPORT BEACH PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Donated Materials, Services and Facilities

Contributions of donated materials and other non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair market values in the period received. Donated services from unpaid volunteers who assist in fundraising and special projects and other volunteer services that do not meet these criteria are not recognized in the financial statements, as there is no objective basis of deriving their value. The Foundation received support in the form of free rent for the years ended June 30, 2023 and 2022. The estimated fair value of the rental of the premises is immaterial and not reported as support and expense in the financial statements.

Special Events

Special events are organized to raise contributions to support the Foundation's activities. The participants of these events are offered something of value for a sum that exceeds the costs of the benefits provided to the participants. The difference between the amount paid by the donor and the fair value of the benefit received by the donor is considered a contribution. The items of value given to the donor are referred to as "cost of direct donor benefits." These are the actual costs of the items and services furnished to the donor to attend the special event. The cost of direct donor benefits is netted against special events revenue in the statement of activities and changes in net assets.

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Significant estimates include the timing of income recognition from grants and contracts and methodologies of allocating expenses by function that could vary from the estimates that were assumed in preparing the financial statements.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

The Foundation maintains some of its cash and cash equivalents in deposit accounts which, at times, exceed federally insured limits. No losses have been experienced related to such accounts. The Foundation believes it places its cash with quality financial institutions and is not exposed to any significant cash concentrations.

NEWPORT BEACH PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments purchased by the Foundation are stated at market value. Fair values of investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Contributed securities are stated at their market value on the date of donation. Realized gains and losses on sale of investments are determined based on the cost of the individual investment and the sale price at the date of sale. Unrealized gains and losses on marketable securities are calculated as the difference between the cost and market value of all investments on hand from one year to the next based on market value at June 30 and reported in the statement of activities and changes in net assets.

Fair Value Measurements

The Foundation follows US GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input of assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Equipment

Equipment is capitalized at cost. It is the Foundation's policy to capitalize expenditures for these items in excess of \$1,000. Lesser amounts are expensed. Equipment is depreciated over its estimated useful life of five years using the straight-line method.

Functional Allocation of Expenses

The costs of providing the various program and other activities have been summarized on a functional basis in the statements of activities and detailed in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates, which is based on the prorated share of direct program expenses incurred by the programs for operating expenses. Expenses that can be identified with specific programs and support services are allocated directly according to their natural expenditure classification.

NEWPORT BEACH PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of FASB ASU 2020-07

Effective January 1, 2022, the Foundation adopted ASU 2020-07 (the "Update"), Not-for-Profit Entities (Topic 958), *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU aims to increase transparency of contributed nonfinancial assets, commonly known as gifts-in-kind, through enhancement to presentation and disclosures. Not-for-Profit entities are required to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets and to disclose the disaggregation of the amount contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets. Each category is subject to certain additional disclosures. The adoption of FASB ASU 2020-07 did not have a material impact on the Foundation's statement of activities or cash flows.

Exempt Organization Status and Income Taxes

The Foundation is exempt from Federal Income Tax under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Tax Code. Contributions to the Foundation are deductible for tax purposes under Section 170(c)(2) of the Internal Revenue Code. The Foundation is involved in no activities that are subject to unrelated business tax. As a result, no provision for income taxes has been made.

NOTE 3 – PROMISES TO GIVE

Unconditional promises to give consist of the following at June 30, 2023 and 2022:

	2023	2022
Unrestricted Promises	\$ 2,390	\$ 6,025
Discount on Promises to Give		(104)
	\$ 2,390	\$ 5,921
	2023	2022
Amounts Due In:		
Less than one year	\$ 2,390	\$ 2,125
One to five years		3,796
	\$ 2,390	\$ 5,921

Unconditional promises to give due in more than one year are recognized at fair value, using present value techniques and using a risk-free interest rate of 2.5% and 2.5% at June 30, 2023 and 2022, respectively, applicable to the years in which the promises are received to discount the amounts.

NEWPORT BEACH PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

NOTE 3 – PROMISES TO GIVE (Continued)

No allowance for uncollectible promises has been recorded by management at June 30, 2023 and 2022.

NOTE 4 – INVESTMENTS

Investments as of June 30, 2023 and 2022 are summarized as follows:

	2023		
	Cost	Fair Value	Unrealized Gain/(Loss)
Cash equivalents	\$ 7,620	\$ 7,620	
Mutual Funds	1,992,792	2,960,672	\$ 967,880
Total Investments	\$ 2,000,412	\$ 2,968,292	\$ 967,880
	2022		
	Cost	Fair Value	Unrealized Gain/(Loss)
Cash equivalents	\$ 7,653	\$ 7,653	
Mutual Funds	2,840,590	2,668,580	\$ (172,010)
Total Investments	\$ 2,848,243	\$ 2,676,233	\$ (172,010)

The following schedule summarized the investment return and its classification in the statements of activities for the years ended June 30, 2023 and 2022:

	2023	
	Without Donor Restiction	With Donor Restriction
	Interest and Dividends	\$
Realized Gain on Investments		11,010
Unrealized Gain on Investments		233,952
Management Fees		(15,000)
	\$	\$ 292,059
	2022	
	Without Donor Restiction	With Donor Restriction
Interest and Dividends	\$	\$ 108,495
Realized Gain on Investments		172,644
Unrealized Loss on Investments		(733,928)
Management Fees		(15,000)
	\$	\$ (467,789)

NEWPORT BEACH PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

Fair values of assets measured on a recurring basis at June 30, 2023 and 2022 are as follows:

		Fair Value at June 30, 2023			
		Total	Level 1	Level 2	Level 3
Assets:					
	Cash equivalents	\$ 7,620	\$ 7,620	\$	\$
	Mutual Funds	2,960,672	2,960,672		
		\$ 2,968,292	\$ 2,968,292	\$	\$
		Fair Value at June 30, 2022			
		Total	Level 1	Level 2	Level 3
Assets:					
	Cash equivalents	\$ 7,653	\$ 7,653	\$	\$
	Mutual Funds	2,668,580	2,668,580		
		\$ 2,676,233	\$ 2,676,233	\$	\$

NOTE 5 – EQUIPMENT

The Foundation's equipment consisted of the following at June 30, 2023 and 2022:

	2023	2022
Equipment	\$ 12,299	\$ 7,434
Less: Accumulated Depreciation	(6,682)	(5,215)
	\$ 5,617	\$ 2,219

For the years ended June 30, 2023 and 2022, annual depreciation expense was \$1,467 and \$772, respectively.

NEWPORT BEACH PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

NOTE 6 – ACCOUNTING AND REPORTING FOR ENDOWMENTS

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMI FA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation or deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation.

Return Objectives and Risk Parameters

The Endowment Fund will be invested to provide safety through diversification in a portfolio of common stocks, bonds, cash equivalents and other investments that may reflect varying rates of return. The overall rate of return objective for the portfolio is a reasonable rate consistent with the risk levels established by the Foundation's Finance Committee.

The investments will also be diversified within asset classes (*e.g.*, equities will be diversified by economic sector, industry, quality, and size). Portfolio diversification is intended to provide protection against a single security or class of securities having a disproportionate impact on aggregate performance.

The careful and thoughtful management of these assets is designed to ensure a total return (yield plus capital appreciation) necessary to preserve and enhance (in real dollars) the principal of the Endowment Fund and concurrently provide a stable component of income for distribution to the Library.

NEWPORT BEACH PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

NOTE 6 – ACCOUNTING AND REPORTING FOR ENDOWMENTS (continued)

Strategies Employed for Achieving Objectives

The investment strategy shall be long-term, total return oriented, with a bias in favor of equities to achieve growth and broad diversification to control volatility of the value of the assets due to changing market conditions.

The asset allocation for the investment portfolio will be determined from time to time by the Finance Committee with the assistance of the Investment Managers to facilitate the achievement of the fund's long-term investment objective within the established risk parameters. Initially, the assets will be divided into the following asset classes:

	<u>Maximum</u> %	<u>Minimum</u> %	<u>Target</u> %
Large Capitalization Domestic Growth Equities	30	20	22.5
Large Capitalization Domestic Value Equities	30	20	22.5
Small/Mid Capitalization	20	0	15
International	20	0	15
Fixed Income	30	20	25

The actual asset allocation will fluctuate with market conditions. It will be reviewed quarterly by the Finance Committee, which will bear the responsibility for making adjustments in order to maintain target ranges. Any permanent changes to policy will be subject to approval of the Board of Directors.

Return: The return objective, measured over a full market cycle, shall be to exceed the return of the market, defined as the Foundation's asset allocation policy applied to the S&P 500 and the Barclays Capital Aggregate Bond Index, formerly the Lehman Brothers Aggregate Bond indices.

Risk: The portfolio should experience risk (volatility and variability of return) commensurate with that of the market. The market is defined as the Foundation's asset allocation policy applied to the S&P 500 Index and the Barclays Capital Aggregate Bond Index, formerly the Lehman Brothers Aggregate Bond indices.

The Foundation's investment advisors may, at their discretion, manage the assets under their control within the ranges specified for each asset class in the Board of Directors Investment Policy.

NEWPORT BEACH PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

NOTE 6 – ACCOUNTING AND REPORTING FOR ENDOWMENTS (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation's Bylaws require the Board of Directors each year to request a statement of funding priorities from the Newport Beach Library Trustees and, unless the Foundation's Board of Directors has established a plan to accumulate funds, the Board of Directors is required within two years after funds have been contributed to the Foundation to distribute those funds to the Library. The Endowment Fund has been established by the Board of Directors under the authority of Article 7, and an amount from the Endowment Fund will be distributed to the Library quarterly, beginning in the first quarter of each fiscal year as a supplement to the funds which are distributed each year in response to the statement of priorities provided by the Newport Beach Library Trustees.

In developing its policy regarding the amount to be distributed from the Endowment Fund each year, the Foundation's Board of Directors considers the following factors:

- ❖ available assets;
- ❖ desired level of annual funding;
- ❖ Foundation's risk tolerance and investment mix;
- ❖ and avoidance of invasion and depletion of principal.

The funding rate is to be reviewed annually based on the performance of the portfolio and all the factors outlined above.

The target goal of the Foundation is to allocate 5% of the market value of the Endowment Fund to the Library annually. The market value of the Endowment Fund shall be determined quarterly. One quarter of the 5% gift shall then be disbursed in the quarter. This is intended to result in the total 5% gift being disbursed within a fiscal year such that the total annual gift would be reflected in the financial statements for that fiscal year. The Foundation's Board of Directors shall retain the discretion to increase or decrease the amount so allocated to the Library in any fiscal year as the Foundation is a non-profit corporation. The Foundation's Board of Directors shall also retain the discretion to use a portion of the dividend or interest income in any year to cover operating expenses of the Foundation.

NEWPORT BEACH PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

NOTE 6 – ACCOUNTING AND REPORTING FOR ENDOWMENTS (Continued)

Changes in Endowment Net Assets

	June 30, 2023		
	Without Donor Restriction	With Donor Restriction	Total
Net Assets, Beginning of Year	\$	\$ 2,676,233	\$ 2,676,233
Contributions			
Investment Return:			
Investment income		47,097	47,097
Net appreciation (realized and unrealized)		204,982	204,982
Total investment return		252,079	252,079
Appropriation of Endowment Assets for Expenditure		39,980	39,980
Contribution to Newport Beach Library			
Net Endowment Assets	\$	\$ 2,968,292	\$ 2,968,292
	June 30, 2022		
	Without Donor Restriction	With Donor Restriction	Total
Net Assets, Beginning of Year	\$	\$ 2,187,124	\$ 2,187,124
Contributions			
Investment Return:			
Investment income		116,264	116,264
Net appreciation (realized and unrealized)		372,845	372,845
Total investment return		489,109	489,109
Appropriation of Endowment Assets for Expenditure			
Contribution to Newport Beach Library			
Net Endowment Assets	\$	\$ 2,676,233	\$ 2,676,233

NEWPORT BEACH PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes as of:

	June 30,	
	2023	2022
Perpetual Endowment Funds	\$ 1,420,338	\$ 1,420,338
Portion of Endowment Funds Restricted for purpose	1,550,723	1,255,895
	2,971,061	2,676,233
 Lecture Hall Campaign	 2,865,195	 30,010
Program Activities	24,045	
 Total Net Assets With Donor Restrictions	 \$ 5,860,301	 \$ 2,706,243

NOTE 8 – LIQUIDITY AND AVAILABILITY

The Foundation maintains and manages adequate operating funds per policies set by the board of directors. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash	\$ 3,289,840
Current pledges receivable, net	2,390
Investments	2,968,292
	6,260,522
Less net assets with donor restrictions	(5,860,301)
 Total	 \$ 400,221

NOTE 9 – CONCENTRATION OF CREDIT RISK

Cash deposits in financial institutions may exceed federally insured limits at times during the year. As of June 30, 2023 and 2022, the cash balances held at financial institutions exceeded the amounts by \$2,850,679 and \$74,956, respectively. Cash deposited in financial institutions differs from cash presented in the statement of financial position due to timing differences.

Due to the ongoing global outbreak of the coronavirus, and the subsequent measures taken by local, state, and federal government, the Foundation is unable to accurately predict how the coronavirus will affect the results of its operation because the disease's severity and the duration of the outbreak are uncertain at this time.

NEWPORT BEACH PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

NOTE 10 - PAYCHECK PROTECTION PROGRAM FORGIVABLE LOAN

In April 2020, the Foundation received a First Draw Paycheck Protection Program (“PPP”) loan in the amount of \$50,200 from a local bank which is administered by the U.S. Small Business Administration (“SBA”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (the “CARES” Act), can loan a qualifying organization up to 2.5 times the qualifying organization's average monthly payroll expenses. The loan and accrued interest are forgivable as long as the borrower uses the loan proceeds during the 24 week covered period it selects for payroll, healthcare benefits, interest on loans obligations incurred before February 15, 2020, rent and utilities as outlined in the loan agreement. Additionally, the Foundation must maintain certain payroll levels in order for the loan to be forgiven. The amount of the loan forgiveness could be reduced if the borrower terminates employees or reduces salaries during the selected covered period. The unforgiven portion of the PPP loan is payable over two years from the disbursement date. Interest is accrued on the loan at 1% from the disbursement date. Payments of the principal and interest are deferred until the date the lender receives notification from the SBA of any unforgiven loan amount but not to exceed the final loan forgiveness application due date. Any remaining balance due on the loan must be repaid on or before the maturity date of the loan. The proceeds of the First Draw PPP loan used for purposes consistent with the PPP agreement during the year ended June 30, 2021 and received notification of forgiveness on July 20, 2021.

Based on the above facts and circumstances, including the complexity and uncertainty of the timing of any forgiveness, the Foundation has adopted a policy to recognize the loan as a liability and will recognize income once any forgiveness is realized.

In March 2021, the Foundation received a Second Draw PPP loan in the amount of \$50,537. The Second Draw PPP loan has the same general loan terms as the First Draw PPP loan which is discussed above. The Foundation used all of the Second Draw PPP loan during the year ended June 30, 2022 for purposes consistent with the PPP agreement and received notification of forgiveness on April 18, 2022.

Since both draws of the PPP were forgiven during the fiscal year, the PPP amount recognized as revenue and reported in the statement activities and changes in net assets for the year ended June 30, 2022 totaled to \$100,737.

NOTE 11 – COMMITMENTS

On November 30, 2021 the Foundation entered into an Memorandum of Understanding with “The City of Newport Beach” related to fundraising for the Library and Lecture Hall Project. The Lecture Hall Project will be a modern facility at the Central Library (the “Library Lecture Hall”) to accommodate Foundation programs as well as other library and community focused events to serve the Newport Beach residents. The Foundation is interested in helping fund the Project by seeking donations from existing supporters as well as from the community at large.

NEWPORT BEACH PUBLIC LIBRARY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

NOTE 11 – COMMITMENTS (Continued)

The total project costs based upon the Conceptual Design prepared by Robert R. Coffee Architects + Associates (“RCA”) was estimated to be \$18,000,000 as of June 30, 2023 and is currently under negotiation. The Foundation expressly agrees that it shall use best efforts to collect donations in the amount of \$6,500,000 (the “Foundation Commitment”), to pay towards the cost of the project, originally bid at \$12,800,000.

As of the date of the audit report the Foundation has pledges totaling approximately \$8,000,000 and is negotiating a new MOU with the city for remaining project costs.

NOTE 12 – SUBSEQUENT EVENTS

Subsequent Events

The Foundation has evaluated subsequent events through September 27, 2023, which was the date the financial statements were available to be issued. Management determined that no material subsequent events have occurred that would require disclosure or recognition in the accompanying financial statements for the years ended June 30, 2023 and 2022.