The San Jose Public Library Foundation
(A California Nonprofit Organization)

Audited Financial Statements &
Independent Auditor's Report
December 31, 2020

Chavan & Associates, LLP
Certified Public Accountants
1475 Saratoga Ave, Suite 180
San Jose, CA 95129

The San Jose Public Library Foundation
(A California Nonprofit Organization)

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Chavan and Associates, llp
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
The San Jose Public Library Foundation
San Jose, California

Report on the Financial Statements

We have audited the accompanying financial statements of The San Jose Public Library Foundation (a California Nonprofit Organization), which comprise the statement of financial position as of December 31, 2020, the related statements of activities, functional expenses and cash flows for the year then ended, and the notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The San Jose Public Library Foundation as of December 31, 2020, 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.

C & A LLP

May 2, 2021
San Jose, California

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Financial Statements

The San Jose Public Library Foundation

(A California Nonprofit Organization)

Statement of Financial Position

December 31, 2020

ASSETS	
Cash and cash equivalents	$ 1,099,078
Investments	5,336,120
Promises to give, net	209,123
Other assets	11,082
Endowment cash	110,916
Total Assets	$ 6,766,319
LIABILITIES	
Accounts payable	$ 25,642
Accrued expenses	22,033
Grants payable	1,135,078
SBA loan	41,696
Total Liabilities	1,224,449
NET ASSETS	
Without donor restrictions:	
Designated by the board for operating reserves	491,053
Undesignated	788,515
Total without donor restrictions	1,279,568
With donor restrictions:	
Endowment:	
Perpetual in nature	110,702
Purpose restrictions	4,151,600
Total net assets with donor restrictions	4,262,302
Total Net Assets	5,541,870
Total Liabilities and Net Assets	$ 6,766,319

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

The San Jose Public Library Foundation

(A California Nonprofit Organization)

Statement of Activities

For the Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions:			
General donations and contributions	$ 707,334	$ 3,195,760	$ 3,903,094
Grants from the City of San Jose	250,000	850,000	1,100,000
In-kind contributions	38,212	323,856	362,068
Net investment return	84,376	8,672	93,048
Net assets released from restrictions:			
Satisfaction of program restrictions	2,197,166	(2,197,166)	-
Total Revenue and Support	3,277,088	2,181,122	5,458,210
EXPENSES			
Program expenses:			
Library branches support	80,902	-	80,902
SJ Learns	1,052,739	-	1,052,739
Library programs and projects	1,413,663	-	1,413,663
Total program expenses	2,547,304	-	2,547,304
Management and general expenses	197,017	-	197,017
Fundraising	204,571	-	204,571
Total Expenses	2,948,892	-	2,948,892
Change in Net Assets	328,196	2,181,122	2,509,318
Total Net Assets - Beginning	951,372	2,081,180	3,032,552
Total Net Assets - Ending	$ 1,279,568	$ 4,262,302	$ 5,541,870

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

The San Jose Public Library Foundation
(A California Nonprofit Organization)
Statement of Functional Expenses
For the Year Ended December 31, 2020

	Program Services				Management and General	Fundraising	Total Expenses
	Library Branches Support	SJ Learns	Library Programs & Projects	Total			
Salaries	$ 12,237	$ 29,341	$ 49,727	$ 91,305	$ 116,805	$ 109,462	$ 317,572
Payroll Taxes	973	2,334	3,955	7,262	9,291	8,706	25,259
Employee Benefits	1,378	3,305	5,602	10,285	13,158	12,331	35,774
Grants to Library	64,475	120,000	762,389	946,864	-	-	946,864
Grants to Others	-	814,800	25,110	839,910	-	-	839,910
Outside Services	-	78,550	235,552	314,102	29,521	34,737	378,360
Conferences and Meetings	-	-	-	-	5,924	-	5,924
Promotional Activities	-	-	-	-	-	1,729	1,729
Donor Appreciation	-	-	-	-	-	8,156	8,156
Licenses, Fees and Taxes	214	512	867	1,593	2,111	4,283	7,987
In-Kind Expenses	1,392	3,339	329,514	334,245	13,291	12,455	359,991
Office	-	-	-	-	3,746	-	3,746
Printing and Postage	-	-	-	-	-	10,626	10,626
Insurance	177	424	719	1,320	1,688	1,582	4,590
Travel	44	105	178	327	1,115	394	1,836
Rent	12	29	50	91	117	110	318
Bad Debt	-	-	-	-	250	-	250
Totals	$ 80,902	$ 1,052,739	$ 1,413,663	$ 2,547,304	$ 197,017	$ 204,571	$ 2,948,892

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

The San Jose Public Library Foundation

(A California Nonprofit Organization)

Statement of Cash Flows

For the Year Ended December 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	$ 2,509,318
Adjustments to reconcile change in net assets to net cash provided by/used for operating activities:	
Realized and unrealized (gain) loss on operating investments	(47,604)
Realized and unrealized (gain) loss on endowment	(6,944)
Interest and dividends from endowment restricted for reinvestment	(1,942)
Contributions restricted to endowments	(1,030)
Noncash stock donations	(2,077)
Changes in operating assets and liabilities:	
Promises to give, net	(187,764)
Grants receivable	500,000
Other assets	(8,664)
Accounts payable	23,051
Accrued expenses	(37,893)
Grants payable	(105,835)
Net cash provided by (used for) operating activities	2,632,616
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of operating investments	(2,388,148)
Proceeds from sale of operating investments	688,461
Purchases of investments restricted to endowment	(1,942)
Purchases of assets restricted for investment in endowment	(1,030)
Net cash provided by (used for) investing activities	(1,702,659)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from contributions and investment return restricted to endowment	2,972
Proceeds from loans	41,696
Net cash provided by (used for) financing activities	44,668
Net change in cash and cash equivalents	974,625
Cash and cash equivalents - beginning of year	124,453
Cash and cash equivalents - end of year	$ 1,099,078

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

NOTE 1 - PRINICPAL ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

The San Jose Public Library Foundation (the "Organization" or the "Foundation") is a 501(c)(3) corporation founded in 1987. The Foundation was established to develop resources that enhance the public library system in San Jose, California. The Foundation provides advocacy, financial support, and leadership to public libraries and educational programs throughout San Jose to create an educated, equitable, and engaged community. The Foundation identifies three programs in its financial statements, Library Branches Support, SJ Learns and Library Programs and Projects.

The Foundation administers the funding of the SJ Learns program authorized by the City Manager of the City of San Jose (City) through a Memorandum of Understanding (MOU) with the City of San Jose Public Library (Library). The SJ Learns program is an education initiative aimed to bolster academic achievement by expanding promising and innovative after-school programs for San Jose students in kindergarten through third grade. The Foundation charges the City an administrative rate of not greater than 15% of the total amount available for program expenditure. The activities of the SJ Learns program are reported separately in the statement of functional expenses.

Basis of Presentation

The financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) for not-for-profit entities (FASB Topic 958, ASU 2016-14).

Cash and Cash Equivalents

The Foundation considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition, as applicable.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for program support services. Management has determined the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. As of December 31, 2020, there were no accounts receivable nor an allowance for accounts receivable.

Promises to Give and Grant Receivable

The Foundation records unconditional promises to give and grants receivable that are expected to be collected within one year at net realizable value. Unconditional promises to give and grants expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. The Foundation determines the allowance for uncollectable promises to give and grants receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give and grant receivable are written off when deemed uncollectable. As of December 31, 2020, the Foundation did not record an allowance for uncollectable accounts.

Investments

The Foundation records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Property and Equipment

The Foundation records property and equipment additions at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets of 3 years. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently. Management did not review the carrying values of property and equipment for impairment because they were immaterial to the financial statements as of December 31, 2020.

Grants Payable

The Foundation provides funding to various libraries and school districts in San Jose based on grant agreements, donor restrictions and needs assessments as evaluated by management and the board.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve. The reserve is intended to be used for emergencies and non-recurring situations and not to replace a permanent loss of funding or ongoing budget gaps. The board can approve the use of the reserve when cash flows are inadequate to meet monthly operating needs, and it is the policy of the board to take steps to replenish the operating reserve within a reasonable period-of-time.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed (or certain grantor-imposed) restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

The Foundation charges an administration fee of up to 15% of amounts contributed to administer certain grants and contributions. The fee is earned and recognized as revenue once the grant has been awarded or the contribution has been promised. Typically, the fee is included in the total amount awarded or promised as with or without donor restrictions, as appropriate, and then a reduction of the total grant or contribution is shown in the statement of activities to account for the admin fee as revenue without donor restrictions. Some agreements separately identify the administrative portion of the grant or contribution. In these scenarios, the revenue is classified as with or without donor restrictions as appropriate and the administrative fee is separately classified as without donor restrictions. Not all agreements, awards and contracts include an administration fee and each contract is evaluated to determine the appropriate accounting treatment. For the year ended December 31, 2020, the Foundation reported $652,363 of administrative fees in unrestricted contributions.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to the Foundation's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. The Foundation records donated professional services at the respective fair values of the services received, when applicable. The Foundation reported revenue of $362,068 for in-kind contributions during the year ended December 31, 2020.

Advertising Costs

Advertising costs are expensed as incurred, and during the year ended December 31, 2020, the Foundation did not have any advertising costs.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Foundation is organized as a California nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as organizations described in IRC Section 501(c)(3) and Section 23701(d) of the California Code, qualifies for the charitable contribution deduction under IRC Sections 170(b)(1)(A)(vi) and (viii), and has been determined not to be private foundations under IRC Sections 509(a)(1) and (3). The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. Management has determined that the Foundation's unrelated business income tax was minimal and immaterial to the financial statements as of December 31, 2020.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Foundation to make estimates and assumptions that affect the reported amounts of 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, and those differences could be material.

Concentrations

For the year ended December 31, 2020, the Foundation received grants and contributions from the City of San Jose and one corporate donor totaling 20% and 46% of total revenues, respectively. For the year ended December 31, 2020, the Foundation awarded grants to the San Jose Public Library and one local school district totaling 32% and 13% of total expenses, respectively.

Financial Instruments and Credit Risk

The Foundation manages deposit concentration risk by placing cash and money market accounts with financial institutions believed by us to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Foundation has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from organizations, individuals, and foundations supportive of the Organization's mission. Investments are made by diversified investment managers/brokers whose performance is monitored by management and the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, the Foundation believes that its investment strategies are prudent for the long-term welfare of the organization.

Implemented New Accounting Pronouncements

In August 2018, FASB issued Accounting Standards Update 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement.* Effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance of this Update. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. This ASU did not have a significant impact on its financial statements.

In March 2019, FASB issued Accounting Standards Update 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*. The FASB is issuing this Update to improve the definition of collections in the Master Glossary by realigning it with the definition in the American Alliance of Museums' (AAM) Code of Ethics for Museums (the Code). The FASB also is making a technical correction in Topic 360, Property, Plant, and Equipment, to clarify that the accounting and disclosure guidance for collections in Subtopic 958-360, Not-for-Profit Entities—Property, Plant, and Equipment, applies to business entities as well as not-for-profit entities, consistent with what was indicated in Statement 116. Amendments in this Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. Early application of the amendments is permitted. The amendments in this Update should be applied on a prospective basis. This ASU did not have a significant impact on its financial statements.

Relevant Upcoming New Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (ASU 2016-02*). ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its balance sheet for all operating leases greater than 12 months. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 31, 2021. The Organization does not anticipate this ASU will have a significant impact on its financial statements.

In January 2018, FASB issued Accounting Standards Update (ASU) 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Tope 842*. ASU 2018-01 allows for an entity to elect an optional transition practical expedient to not evaluate under Topic 842 land easements that exist or expired before the entity's adoption of Topic 842 and that were not previously accounted for as leases under Topic 840. ASU 2018-01 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 31, 2021. The Organization does not anticipate this ASU will have a significant impact on its financial statements.

In September 2020, FASB issued Accounting Standards Update 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The FASB is issuing this update to increase the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The amendments in this Update address certain stakeholders' concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in an NFP's programs and other activities. NFPs that receive contributed nonfinancial assets are subject to the Amendments in this Update. Contribution revenue may be presented in the financial statements using different terms (for example, gifts, donations, grants, gifts-in-kind, donated services, or other terms). The amendments in this Update should be applied on a retrospective basis and are effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted. The Organization does not anticipate this ASU will have a significant impact on its financial statements.

Subsequent Events

Management has evaluated all subsequent events from the statement of financial position date of December 31, 2020, through the date the financial statements were available to be issued, May 2, 2021. Beginning in March 2020, the United States economy began suffering adverse effects from the COVID 19 Virus Crisis ("CV19 Crisis"). As of the date of issuance of the financial statements, the Organization had not suffered a material adverse impact from the CV19 Crisis. However, the future impact of the CV19 Crisis cannot be reasonably estimated.

NOTE 2 - LIQUIDITY AND AVAILABILITY

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 and cash equivalents	$ 1,099,078
Investments	1,364,116
Promises to give	29,742
Total	$ 2,492,936

As part of its liquidity management plan, the foundation invests cash in mutual funds with a broker. Endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments are restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

NOTE 3 - FAIR VALUE MEASUREMENTS AND DISCLOSURES

The Foundation reports certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Foundation develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Foundation's assessment of the quality, risk, or liquidity profile of the asset or liability.

The Foundation invests in mutual funds traded in the financial markets. Those mutual funds are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions, and are classified within Level 2.

The following table presents assets and liabilities measured at fair value on a recurring basis as of December 31, 2020:

		Fair Value Measurements at Report Date Using		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Un-observable Inputs (Level 3)
Operating investments:				
Schwab variable share mutual funds	$2,681,797	$ 2,681,797	$ -	$ -
Schwab bond exchange traded funds (ETF)	1,245,788	1,245,788	-	-
Schwab emerging ETF	70,988	70,988	-	-
Schwab US Treasury ETF	1,079,978	1,079,978	-	-
Schwab US broad market ETF	145,226	145,226	-	-
Schwab Vanguard developed markets ETF	95,405	95,405	-	-
Morgan Stanley Vanguard dividend appreciation	2,128	2,128	-	-
Schwab bank sweep at cost	14,810	-	-	-
Endowment investment:				
Schwab variable share mutual funds	10,047	10,047	-	-
Schwab bond exchange traded funds (ETF)	35,719	35,719	-	-
Schwab emerging ETF	14,517	14,517	-	-
Schwab US broad market ETF	29,699	29,699	-	-
Schwab Vanguard developed markets ETF	19,511	19,511	-	-
Schwab bank sweep at cost	976	-	-	-
Total	$5,446,589	$ 5,430,803	$ -	$ -

NOTE 4 - ENDOWMENT

The purpose of the Foundation's Endowment Fund (the Fund) is to support children's programs, resources, and materials at the Almaden Branch of the San Jose Public Library. Children are defined as being age birth to 14 years old. All direct children's program costs, including materials, supplies, equipment, program personnel, capital projects, renovations, communications, may be paid by the Fund.

The Foundation's Board of Directors has interpreted the California Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At December 31, 2020 there were no such donor stipulations. As a result of this interpretation, the foundation retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts donated to the Endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

As of December 31, 2020, the Foundation had the following endowment net asset composition:

Endowments With Donor Restrictions		
Original donor restricted contribution and amounts required to be maintained in perpetuity by donor	$	102,030
Accumulated investment gains		8,672
Total Endowments	$	110,702

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2020, funds with original gift values of $102,030 and fair values of $110,702 were reported in net assets with donor restrictions. There were no funds with deficiencies and no recoveries of deficiencies caused by market fluctuations.

Investment and Spending Policies

The Foundation has adopted investment and spending policies for the Endowment that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the Endowment assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the Endowment investments. The Endowment Fund investment strategy has been designed to achieve returns sufficient to cover reasonable spending plus inflation, while minimizing volatility. It is acknowledged that volatility is inherent in any long-term growth strategy. Short-term volatility will be tolerated to the extent it is consistent with the volatility of a comparable market index. A significant portion of the funds will be invested to seek growth of principal over time. An investment horizon of at least 10 years will be used to compensate for the volatility and market cycles of this long-term portfolio. It is recognized that equity investments have provided premium returns and growth over the long term compared with fixed income investments, although fixed income investments typically provide more stable value and lower volatility.

It is the Foundation's intent to spend a portion of the Endowment Fund's fair value each year, with the balance to remain invested in accordance with the Fund's investment policy. The target annual spending rate is up to 5% of the trailing 12-quarter moving average based on quarter-end fair values (generally, market values). The 12-quarter average reduces the impact on spending caused by market volatility. This calculation is to be performed annually using the 12 quarters ending September 30 of the current year to establish the projected amount for the subsequent year. Because each sub-fund within the overall Endowment Fund will have its own unique investment performance based on the timing of its cash flows, the spending calculation will be performed for each individual sub-fund within the overall Endowment Fund. An evaluation of actual spending year to date will be done prior to the literal transfer of funds for the current year, typically in the July-August timeframe. The amount subsequently transferred will not exceed the 5% authorized spend rate. The annual portfolio rebalancing will typically occur at this time as well. The Finance Committee of the Foundation may vary from this timing based on actual and projected spending as well as market conditions.

Changes in Endowment net assets for the year ended December 31, 2020 were as follows:

	With Donor Restrictions
Endowment net assets, beginning balance	$ 101,000
Contributions	1,030
Investment return, net	8,672
Endowment net assets, ending balance	$ 110,702

NOTE 5 - PROMISES TO GIVE

Unconditional promises to give of $209,123 was estimated to be collected within one year of December 31, 2020. Therefore, no discounts have been applied to these balances.

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of December 31, 2020:

Net Assets with Donor Restrictions	
Endowments:	
Restricted by donors for children's programs, resources and materials at the Almaden Branch of the San Jose Public Library	$ 110,702
Subject to Expenditure for Specified Purpose:	
Library Branches Support	176,272
SJ Learns	770,692
Library Programs and Projects	3,204,636
Total Net Assets with Donor Restrictions	$ 4,262,302

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or other events specified by the donors as follows for the year ended December 31, 2020:

Net Assets Released from Restrictions	
Subject to Expenditure for Specified Purpose:	
Library Branches Support	$ 64,475
SJ Learns	1,013,185
Library Programs and Projects	1,119,506
Total Net Assets Released from Restrictions	$ 2,197,166

NOTE 7 - FUNCTIONALIZED EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, benefits, payroll taxes, and other personnel costs, which are allocated on the basis of total direct programmatic or functional costs.

NOTE 8 - RETIREMENT PLAN

The Foundation maintains a 401(k) profit-sharing plan which covers substantially all employees meeting certain age and service requirements. The Foundation matches employee 401(k) contributions up to a certain percentage. Contributions to the profit-sharing plan are discretionary. The Foundation reserves the right to amend or terminate the plan at any time. The employer matching contributions totaled $11,159 for the year ended December 31, 2020.

NOTE 9 - U.S. SMALL BUSINESS ADMINSTRATION PAYCHECK PROTECTION PROGRAM LOAN (SBA LOAN)

In May 2020, the Foundation was issued a $41,696 U.S. Small Business Administration loan with Kabbage, an American Express Company, bearing a 1% fixed interest rate and maturing in May 2022. This loan was issued under the Paycheck Protection Program and the provisions of Section 1106 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The Foundation may apply for loan forgiveness in an amount equal to the sum of payroll costs, interest on a covered mortgage obligation, covered rent obligations, and covered utility payments incurred during the 8-week period beginning on the date of the loan origination. The period must be selected when applying for loan forgiveness. This is a non-recourse loan unless used for unauthorized purposes. The Foundation will begin making monthly payments of principal in equal installments in an amount that would fully amortize the loan by the maturity date, plus interest, in arrears, calculated based upon the original principal amount until the date of any forgiveness and on the remaining outstanding principal balance thereafter, of the loan and a per annum interest rate of one percent (1.00%) beginning six months from the month of the disbursement date.