

FAIRFAX LIBRARY FOUNDATION, INC.

FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

KOSITZKA, WICKS & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS



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KOSITZKA, WICKS & COMPANY
Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Fairfax Library Foundation, Inc.
Fairfax, Virginia

We have audited the statements of financial position of **Fairfax Library Foundation, Inc.** (a nonprofit corporation) as of June 30, 2010 and 2009, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the **Fairfax Library Foundation, Inc.'s** management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Fairfax Library Foundation, Inc.** as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Kositzka, Wicks and Company

Alexandria, Virginia
November 1, 2010

Fairfax Library Foundation, Inc.

Statements of Financial Position June 30,

2010

2009

Assets

Current assets

Cash and cash equivalents	\$ 654,507	\$ 610,483
Certificates of deposit	70,000	96,239
Pledges receivable	20,143	58,502
Prepaid expenses and other assets	11,405	7,303
Donated assets	21,927	15,190
	<u>777,982</u>	<u>787,717</u>

Investments - endowment funds 2,458,657 2,119,093

Property and equipment, net of accumulated depreciation 13,829 690

Total assets \$ 3,250,468 \$ 2,907,500

Liabilities and net assets

Current liabilities

Accounts payable and accrued expenses \$ 7,473 \$ 7,340

Net assets

Unrestricted	1,254,684	910,151
Temporarily restricted	567,662	598,817
Permanently restricted	1,420,649	1,391,192
Total net assets	<u>3,242,995</u>	<u>2,900,160</u>

Total liabilities and net assets \$ 3,250,468 \$ 2,907,500

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Fairfax Library Foundation, Inc.

Statement of Activities for the year ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue				
Contributions	\$ 180,019	\$ 94,126	\$ 29,457	\$ 303,602
In-kind contributions	227,323	14,550	-	241,873
Special event (net of direct expenses of \$11,362)	150,838	-	-	150,838
Investment income	209,145	-	-	209,145
Net assets released from restrictions	139,831	(139,831)	-	-
Total revenue	<u>907,156</u>	<u>(31,155)</u>	<u>29,457</u>	<u>905,458</u>
Expenses				
Program services	347,771	-	-	347,771
Management and general	107,063	-	-	107,063
Fundraising	107,789	-	-	107,789
Total expenses	<u>562,623</u>	<u>-</u>	<u>-</u>	<u>562,623</u>
Change in net assets	344,533	(31,155)	29,457	342,835
Net assets, beginning of year	<u>910,151</u>	<u>598,817</u>	<u>1,391,192</u>	<u>2,900,160</u>
Net assets, end of year	<u>\$ 1,254,684</u>	<u>\$ 567,662</u>	<u>\$ 1,420,649</u>	<u>\$ 3,242,995</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Fairfax Library Foundation, Inc.

Statement of Activities for the year ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue				
Contributions	\$ 191,291	\$ 73,661	\$ 15,273	\$ 280,225
In-kind contributions	284,080	22,100	-	306,180
Investment loss	(316,872)	(42,828)	-	(359,700)
Net assets released from restrictions	154,451	(154,451)	-	-
Total revenue	<u>312,950</u>	<u>(101,518)</u>	<u>15,273</u>	<u>226,705</u>
Expenses				
Program services	387,046	-	-	387,046
Management and general	121,425	-	-	121,425
Fundraising	114,307	-	-	114,307
Total expenses	<u>622,778</u>	<u>-</u>	<u>-</u>	<u>622,778</u>
Change in net assets	(309,828)	(101,518)	15,273	(396,073)
Net Assets, beginning of year	<u>1,219,979</u>	<u>700,335</u>	<u>1,375,919</u>	<u>3,296,233</u>
Net Assets, end of year	<u>\$ 910,151</u>	<u>\$ 598,817</u>	<u>\$ 1,391,192</u>	<u>\$ 2,900,160</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Fairfax Library Foundation, Inc.

Statement of Functional Expenses for the year ended June 30, 2010

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Program benefits awarded	\$ 206,346	\$ -	\$ -	\$ 206,346
Salaries and benefits	83,594	70,457	70,457	224,508
Contracted staff	11,879	11,860	10,260	33,999
Graphics and printing	13,690	2,975	9,106	25,771
Fees and other charges	20,502	92	951	21,545
Accounting service	-	10,375	-	10,375
Advertising	4,916	-	-	4,916
Office supplies and expense	817	1,200	-	2,017
Depreciation	230	230	230	690
Computer maintenance and supplies	1,516	1,636	4,942	8,094
Meetings and recruitment	192	852	68	1,112
Dues and membership	100	245	565	910
Donor cultivation	-	-	30	30
Training	-	72	215	287
Travel	961	311	726	1,998
Postage	19	3,242	9,792	13,053
Insurance	2,956	1,336	-	4,292
Licenses and permits	-	1,135	200	1,335
Telephone	-	770	-	770
Other	53	275	247	575
Total functional expenses	<u>\$ 347,771</u>	<u>\$ 107,063</u>	<u>\$ 107,789</u>	<u>\$ 562,623</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Fairfax Library Foundation, Inc.

Statement of Functional Expenses for the year ended June 30, 2009

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Program benefits awarded	\$ 221,180	\$ -	\$ -	\$ 221,180
Salaries and benefits	91,654	91,654	91,653	274,961
Contracted staff	5,820	7,853	5,839	19,512
Consultants	22,344	-	-	22,344
Graphics and printing	15,636	167	8,002	23,805
Fees and other charges	19,160	1,567	-	20,727
Accounting service	-	9,510	-	9,510
Office supplies and expense	935	461	57	1,453
Depreciation	1,314	1,314	1,313	3,941
Computer maintenance and supplies	1,841	1,841	1,841	5,523
Meetings and recruitment	32	1,955	26	2,013
Dues and membership	100	185	550	835
Donor cultivation	22	-	152	174
Training	242	707	880	1,829
Travel	2,963	321	438	3,722
Postage	233	1,874	3,133	5,240
Insurance	2,946	1,064	-	4,010
Licenses and permits	-	25	423	448
Telephone	11	770	-	781
Other	613	157	-	770
Total functional expenses	\$ 387,046	\$ 121,425	\$ 114,307	\$ 622,778

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Fairfax Library Foundation, Inc.

Statements of Cash Flows for the years ended June 30,

2010

2009

Cash flows from operating activities

Change in net assets	\$ 342,835	\$ (396,073)
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation	690	3,941
Unrealized and realized (gain) loss on investments	(156,227)	423,456
(Increase) decrease in operating assets		
Pledges receivable	38,359	35,661
Prepaid expenses and other assets	(4,102)	692
Donated assets	(6,737)	(15,190)
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	133	(16,237)
Net cash provided by operating activities	<u>214,951</u>	<u>36,250</u>

Cash flows from investing activities

Purchase of property	(13,829)	-
Proceeds from sale of certificate of deposit	96,239	93,654
Purchase of certificates of deposit	(70,000)	(96,239)
Proceeds from sale of investments	678,083	336,179
Purchase of investments	(861,420)	(322,928)
Net cash provided (used) by investing activities	<u>(170,927)</u>	<u>10,666</u>

Net increase in cash and cash equivalents

44,024 46,916

Cash and cash equivalents, beginning of year

610,483 563,567

Cash and cash equivalents, end of year

\$ 654,507 \$ 610,483

Supplemental disclosure of cash flow information

Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Fairfax Library Foundation, Inc.

Notes to Financial Statements June 30, 2010 and 2009

1. Organization

Fairfax Library Foundation, Inc. (the Foundation), a not-for-profit corporation, was established in 1994 to provide supplementary support to the Fairfax County Public Library. The Foundation is supported primarily through donor and in-kind contributions. Grants are awarded to libraries within the Fairfax County Library system.

2. Significant accounting policies

Basis of accounting

The Foundation prepares its financial statements on the accrual basis of accounting. In accordance with this method of accounting, revenue is recognized in the period in which it is earned and expenses are recognized in the period in which they are incurred.

All contributions with donor-imposed restrictions are recognized as temporarily or permanently restricted support that increases those net asset classes. When temporary restrictions are met, the contributions are transferred to unrestricted support. Contributions with no donor-imposed restrictions are recognized immediately as unrestricted support.

Cash and cash equivalents

Short-term, highly liquid investments with an original maturity of three months or less, including money market funds, are considered to be cash equivalents. Cash and cash equivalents held in investment accounts are excluded from cash and cash equivalents.

Pledges receivable

Grants and accounts receivable are reported at full value as all amounts are deemed fully collectible. Specific bad debts are expensed as they become known. Pledges receivable as of June 30, 2010 and 2009 are expected to be collected within one year.

Property and equipment

It is the Foundation's policy to capitalize property and equipment over \$500. Property and equipment are carried at cost or estimated fair market value, if donated. Equipment is depreciated using the straight-line method over estimated lives of three to five years. Depreciation expense for the years ended June 30, 2010 and 2009 was \$690 and \$3,941, respectively.

Investments

Investments are carried at their fair market values based on publicly available market data obtained from services independent of the Foundation. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

See independent auditor's report.

Fairfax Library Foundation, Inc.

Notes to Financial Statements June 30, 2010 and 2009

2. Significant accounting policies (continued)

Other financial assets and liabilities

Financial assets with carrying values approximating fair value include cash and cash equivalents, certificates of deposit, pledges receivable, prepaid expenses and other assets, and donated assets. Financial liabilities with carrying values approximating fair value include accounts payable and accrued expenses. The carrying value of these financial assets and liabilities approximates fair value due to their short maturities and any associated interest rates approximate current market rates.

Donated services and facilities

In-kind contributions from the Fairfax County Public Library for all salaries and benefits have been recorded under expenses relating to program services, management and general and fundraising at fair value. The Foundation receives rent-free use of office space from Fairfax County, Virginia. No in-kind contribution is recorded since there is no reliable basis for measurement. Donated property is reflected as revenue at the fair market value of the property on date of donation. Other donated services received by the Foundation are recorded at fair value. Donations in kind are detailed at Note 8 of these financial statements.

Concentrations of credit and market risk

Financial instruments that potentially expose the Foundation to concentrations of credit and market risk consist primarily of cash equivalents and investments.

At year-end and throughout the year, the Foundation's cash balances were deposited in several banks which may exceed federally insured limits. Cash and cash equivalents are maintained at high-quality financial institutions. The Foundation has not experienced any losses on its cash equivalents and management does not believe this results in any significant credit risk.

In general, investments are exposed to various risk, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect amounts reported in future statements of activities. Management believes that the Foundation's investments do not represent significant concentrations of market risk as the Foundation's investment portfolio is adequately diversified among issuers.

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

See independent auditor's report.

Fairfax Library Foundation, Inc.

Notes to Financial Statements June 30, 2010 and 2009

2. Significant accounting policies (continued)

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Subsequent events

The Foundation assessed events occurring subsequent to June 30, 2010 through November 1, 2010, the date the financial statements were available to be issued, for potential recognition and disclosure in the financial statements. No events have occurred that would require adjustment to or disclosure in the financial statements.

Recent and upcoming accounting pronouncements

FASB Accounting Standards Codification

In June 2009, the FASB approved the "FASB Accounting Standards Codification," (the Codification), as the single source of authoritative US GAAP for all non-governmental entities, with the exception of the SEC and its staff. The Codification, which launched July 1, 2009, changes the referencing and foundation of accounting guidance and is effective for interim and annual periods ending after September 15, 2009. As the Codification did not change or alter existing US GAAP, the Codification it did not have any impact on the Foundation's financial condition or results of operations. As of September 15, 2009, the Foundation's financial statements no longer refer to specific US GAAP statements.

Accounting for uncertainty in income taxes

In June 2006, FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109." The provisions of FASB Interpretation No. 48 are now contained in FASB ASC 740-10. The Foundation adopted the provisions of FASB ASC 740-10 as of July 1, 2009. See note 13 for additional information.

3. Cash and cash equivalents

Cash and cash equivalents as of June 30, 2010 and 2009, consisted of the following:

	<u>2010</u>	<u>2009</u>
Checking	\$ 142,861	\$ 156,195
Savings	-	153,968
Money market funds	511,646	300,320
	<u>\$ 654,507</u>	<u>\$ 610,483</u>
Amount covered by Federal Deposit Insurance Corporation (FDIC)	<u>\$ 720,240</u>	<u>\$ 630,858</u>

See independent auditor's report.

Fairfax Library Foundation, Inc.

Notes to Financial Statements June 30, 2010 and 2009

4. Certificate of deposit

The Foundation held one certificate of deposit as of June 30, 2010. The 12 month certificate carries an interest rate of 1.54% through April 14, 2011. The Foundation held one certificate of deposit as of June 30, 2009. The 9 month certificate carried an interest rate of 1.99% through November 9, 2009. The certificates of deposit are reported at cost plus accrued interest which approximates fair market value.

5. Donated assets

Donated assets as of June 30, 2010 consisted of auction and other items with a fair market value of \$21,927 for a special event held in September 2010.

Donated assets as of June 30, 2009 consisted of auction items with a fair market value of \$5,190 for a special event to be held in September 2009 and land in Fairfax County, Virginia with a fair market value at the time of donation of \$10,000. The Foundation donated the land to Fairfax County during the year ended June 30, 2010.

6. Investments

Investments as of June 30, 2010 and 2009, consisted of the following:

	<u>2010</u>	<u>2009</u>
Cash and money market funds	\$ 376,361	\$ 202,780
Equities and mutual funds	2,082,296	1,890,227
Mortgage-backed securities	-	26,086
	<u>\$ 2,458,657</u>	<u>\$ 2,119,093</u>

Investment income (loss) for the years ended June 30, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Realized gains (losses) on investments sold	\$ 71,076	\$ (142,997)
Unrealized gains (losses)	85,151	(280,459)
Interest and dividend income	52,918	63,756
	<u>\$ 209,145</u>	<u>\$ (359,700)</u>

Investment fees of \$20,501 and \$20,030 were paid for the years ended June 30, 2010 and 2009, respectively, and are included in fees and other charges on the accompanying statement of functional expenses.

See independent auditor's report.

Fairfax Library Foundation, Inc.

Notes to Financial Statements June 30, 2010 and 2009

7. Property and equipment

Property and equipment for the years ended June 30, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Furniture and fixtures	\$ 3,240	\$ 3,240
Computer equipment and software	15,829	13,824
Less: accumulated depreciation	(5,240)	(16,374)
	<u>\$ 13,829</u>	<u>\$ 690</u>

8. In-kind contributions

In-kind contributions for the years ended June 30, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Salaries and benefits	\$ 224,508	\$ 274,961
Books	14,450	12,117
Donor cultivation	-	3,510
Supplies	460	5,210
Miscellaneous	2,455	382
Land	-	10,000
	<u>\$ 241,873</u>	<u>\$ 306,180</u>

The Foundation has an agreement with the Fairfax County Public Library whereby the library will provide salaries and benefits as an in-kind contribution. For the years ended June 30, 2010 and 2009, this contribution totaled \$224,508 and \$274,961, respectively.

Additional in-kind contributions valued at \$33,037 are included in revenue from special events.

See independent auditor's report.

Fairfax Library Foundation, Inc.

Notes to Financial Statements June 30, 2010 and 2009

9. Temporarily restricted net assets

During 1996, the Foundation received a bequest from a trust (Macleod fund). This contribution was donor-restricted for the purchase of recorded books. The Board has designated that the principal amount received from this bequest be held as a permanent endowment fund. Only the investment income will be spent for the donor-restricted purpose. At June 30, 2010 and 2009, the donor-restricted amount was \$495,536 and \$542,895, respectively.

A summary of activity in temporarily restricted net assets as of June 30, 2010 was as follows:

	Beginning Balance	Revenue	Releases	Ending Balance
Program activities:				
Purchase of recorded books (Macleod fund)	\$ 524,895	\$ 1,230	\$ (30,589)	\$ 495,536
County library grants	-	85,501	(85,501)	-
Scholarships	49,519	19,075	(13,549)	55,045
Early Literature	24,403	2,870	(10,192)	17,081
	<u>\$ 598,817</u>	<u>\$ 108,676</u>	<u>\$ (139,831)</u>	<u>\$ 567,662</u>

A summary of activity in temporarily restricted net assets as of June 30, 2009 was as follows:

	Beginning Balance	Revenue	Releases	Ending Balance
Program activities:				
Purchase of recorded books (Macleod fund)	\$ 549,577	\$ 1,230	\$ (25,912)	\$ 524,895
County library grants	-	58,131	(58,131)	-
Scholarships	40,702	22,675	(13,858)	49,519
Early Literature	10,678	13,725	-	24,403
Arts Council	56,550	-	(56,550)	-
	<u>657,507</u>	<u>95,761</u>	<u>(154,451)</u>	<u>598,817</u>
Portion of donor-restricted endowments subject to a time restriction under UPMIFA	<u>42,828</u>	<u>-</u>	<u>(42,828)</u>	<u>-</u>
Total temporarily restricted net assets	<u>\$ 700,335</u>	<u>\$ 95,761</u>	<u>\$ (197,279)</u>	<u>\$ 598,817</u>

See independent auditor's report.

Fairfax Library Foundation, Inc.

Notes to Financial Statements June 30, 2010 and 2009

10. Permanently restricted net assets

Permanently restricted net assets included the following:

	2010	2009
General Endowment	\$ 920,649	\$ 891,192
Children's Reading Program fund	500,000	500,000
	<u>\$ 1,420,649</u>	<u>\$ 1,391,192</u>

The New Century Library Fund (NCLF) Campaign was established in fiscal year 2001 to enhance the services and resources of the Fairfax County Public Library in the 21st century. During fiscal year 2010, the name was formally changed to the General Endowment. Donations may be given as a permanent endowment or may be directed within one of four areas: books, the virtual library, community programs or the Friends Scholarship Fund. For the years ended June 30, 2010 and 2009, the Campaign received \$29,457 and \$15,273 respectively, for the permanent endowment.

On May 24, 2002, a permanent endowment (Children's Reading Program fund) was established by The George Mason Friends, Inc., for the intended purpose of supporting the Children's Reading Program of the Fairfax Country Public Library. As of June 30, 2009, accumulated contributions to the fund were \$450,010. As of June 30, 2010, the Friends contributed \$500,000 representing the entire balance of their pledge. Once approved by the Friends, \$25,000 of earnings on the endowment will be expended annually for the Children's Reading Program.

11. Endowment funds

The Foundation endowment funds consist of three individual funds established for a variety of purposes. The endowment funds include both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, 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.

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the Virginia Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gifts 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.

See independent auditor's report.

Fairfax Library Foundation, Inc.

Notes to Financial Statements June 30, 2010 and 2009

11. Endowment funds (continued)

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 organization 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 effects of inflation and 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 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 funds while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity as well as board-designated funds. Under the policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately six percent annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives

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

Spending policy and how the investment objectives relate to spending policy

The amounts appropriated for distribution by the Foundation vary for each fund. For the General endowment, the Foundation has a policy of appropriating for distribution each year four percent of the endowment fund's average fair value over the previous five fiscal years. For the Macleod endowment, the Foundation has a policy of appropriating for distribution each year four percent of the endowment fund's average fair value over the previous five calendar years. A distribution of three percent of four percent of the average value of the Children's Reading Program fund over the previous five calendar years will be made each year to cover administrative expenses. No additional appropriations will be made from the Children's Reading Program fund until donors agree that contributions of \$25,000 annually should begin. In establishing these policies, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of two percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

See independent auditor's report.

Fairfax Library Foundation, Inc.

Notes to Financial Statements June 30, 2010 and 2009

11. Endowment funds (continued)

Endowment net asset composition by type of fund

The endowment net assets consisted of the following as of June 30:

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds				
General fund	\$ (157,312)	\$ -	\$ 920,649	\$ 763,337
Children's Reading Program fund	(6,142)	-	500,000	493,858
Total donor-restricted endowment funds	(163,454)	-	1,420,649	1,257,195
Board-designated endowment funds				
Macleod fund	215,552	495,536	-	711,088
General fund	490,374	-	-	490,374
Total board-designated endowment funds	705,926	495,536	-	1,201,462
Total endowment funds	<u>\$ 542,472</u>	<u>\$ 495,536</u>	<u>\$ 1,420,649</u>	<u>\$ 2,458,657</u>
	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds				
General fund	\$ (188,265)	\$ -	\$ 891,192	\$ 702,927
Children's Reading Program fund	(38,979)	-	450,010	411,031
Total donor-restricted endowment funds	(227,244)	-	1,341,202	1,113,958
Board-designated endowment funds				
Macleod fund	154,180	524,895	-	679,075
General fund	326,060	-	-	326,060
Total board-designated endowment funds	480,240	524,895	-	1,005,135
Total endowment funds	<u>\$ 252,996</u>	<u>\$ 524,895</u>	<u>\$ 1,341,202</u>	<u>\$ 2,119,093</u>

See independent auditor's report.

Fairfax Library Foundation, Inc.

Notes to Financial Statements June 30, 2010 and 2009

11. Endowment funds (continued)

Changes in endowment net assets

The endowment net activity consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds as of June 30, 2008	\$ 637,466	\$ 592,405	\$ 1,325,929	\$ 2,555,800
Investment return				
Investment income	50,054	5,857	-	55,911
Net appreciation (depreciation)	(376,928)	(46,490)	-	(423,418)
Investment fees	(17,835)	(2,195)	-	(20,030)
Total investment return	<u>(344,709)</u>	<u>(42,828)</u>	-	<u>(387,537)</u>
Contributions to perpetual endowment	100	1,230	15,273	16,603
Amounts appropriated for expenditure	(39,861)	(25,912)	-	(65,773)
Endowment funds as of June 30, 2009	<u>\$ 252,996</u>	<u>\$ 524,895</u>	<u>\$ 1,341,202</u>	<u>\$ 2,119,093</u>
Investment return				
Investment income	\$ 45,135	\$ -	\$ -	\$ 45,135
Net appreciation (depreciation)	156,082	-	-	156,082
Investment fees	(20,501)	-	-	(20,501)
Total investment return	<u>180,716</u>	<u>-</u>	<u>-</u>	<u>180,716</u>
Contributions to perpetual endowment	149,955	1,230	79,447	230,632
Amounts appropriated for expenditure	(41,195)	(30,589)	-	(71,784)
Endowment funds as of June 30, 2010	<u>\$ 542,472</u>	<u>\$ 495,536</u>	<u>\$ 1,420,649</u>	<u>\$ 2,458,657</u>

See independent auditor's report.

Fairfax Library Foundation, Inc.

Notes to Financial Statements June 30, 2010 and 2009

11. Endowment funds (continued)

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that were reported in unrestricted net assets as of June 30, 2010 were \$157,312 for the donor restricted portion of the General Endowment fund and \$6,142 for the donor restricted Children's Reading Program fund. Deficiencies of this nature that were reported in unrestricted net assets as of June 30, 2009 were \$188,265 for the donor restricted portion of the General Endowment fund and \$38,979 for the donor restricted Children's Reading Program fund. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs deemed prudent by the Board of Directors.

12. Fair value measurements

In accordance with FASB ASC 820-10, the Foundation classifies its investments into Level 1, which refers to securities valued using quoted prices from active markets for identical assets; Level 2, which refers to securities not traded on an active market but for which observable market inputs are readily available; and Level 3, which refers to securities valued based on significant unobservable inputs. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Assets measured at fair value on a recurring basis are summarized below as of June 30, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and money market funds	\$ 376,361	\$ -	\$ -	\$ 376,361
Equities and mutual funds	2,082,296	-	-	2,082,296
Total investments reported at fair value	<u>\$ 2,458,657</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,458,657</u>

13. Income taxes

As required, the Foundation adopted FASB ASC 740-10 during the year beginning July 1, 2009. The adoption did not result in a material impact to the Foundation's results of operations or its financial condition. The Foundation is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as an organization that is not a private foundation. For the years ended June 30, 2010 and 2009, the Foundation did not have any "unrelated business income" subject to income taxes. Accordingly, no provision for income taxes has been included in these financial statements.

The material jurisdictions subject to potential examination by taxing authorities is the U.S. and Virginia. The Board does not believe that the ultimate outcome of any future examinations of open tax years will have a material impact on the Foundation's results of operations. Tax years that remain subject to examination by the IRS are 2007 through 2010.

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