

FAIRFAX LIBRARY FOUNDATION

FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

KOSITZKA, WICKS & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS



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Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Fairfax Library Foundation

We have audited the accompanying financial statements of **Fairfax Library Foundation** (a nonprofit organization) which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Fairfax Library Foundation** as of June 30, 2017 and 2016, and the change 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.

Kositzka, Wicks and Company

Alexandria, Virginia
October 18, 2017

Fairfax Library Foundation

Statements of Financial Position June 30,

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	\$ 763,659	\$ 644,002
Pledges receivable	6,872	7,085
Prepaid expenses and other assets	14,969	15,132
	<u>785,500</u>	<u>666,219</u>
Other assets		
Investments - endowment funds	4,635,398	4,328,653
Friends' Group investments	180,228	-
	<u>4,815,626</u>	<u>4,328,653</u>
Total assets	<u>\$ 5,601,126</u>	<u>\$ 4,994,872</u>
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 33,781	\$ 35,875
Funds held on behalf of Friends' Group	180,228	-
Net assets		
Unrestricted	2,497,977	2,272,690
Temporarily restricted	941,580	738,747
Permanently restricted	1,947,560	1,947,560
Total net assets	<u>5,387,117</u>	<u>4,958,997</u>
Total liabilities and net assets	<u>\$ 5,601,126</u>	<u>\$ 4,994,872</u>

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

Fairfax Library Foundation

Statement of Activities for the year ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue				
Contributions	\$ 124,320	\$ 166,600	\$ -	\$ 290,920
In-kind contributions	281,074	10,910	-	291,984
Special event (net of direct expenses of \$19,416)	101,865	-	-	101,865
Sales revenue	6,148	-	-	6,148
Investment income	229,009	216,999	-	446,008
Net assets released from restrictions	191,676	(191,676)	-	-
Total revenue	<u>934,092</u>	<u>202,833</u>	<u>-</u>	<u>1,136,925</u>
Expenses				
Program services	574,599	-	-	574,599
Management and general	61,922	-	-	61,922
Fundraising	72,284	-	-	72,284
Total expenses	<u>708,805</u>	<u>-</u>	<u>-</u>	<u>708,805</u>
Change in net assets	225,287	202,833	-	428,120
Net assets, beginning of year	<u>2,272,690</u>	<u>738,747</u>	<u>1,947,560</u>	<u>4,958,997</u>
Net assets, end of year	<u>\$ 2,497,977</u>	<u>\$ 941,580</u>	<u>\$ 1,947,560</u>	<u>\$ 5,387,117</u>

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

Fairfax Library Foundation

Statement of Activities for the year ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Contributions	\$ 110,592	\$ 83,966	\$ -	\$ 194,558
In-kind contributions	236,604	9,863	-	246,467
Special event (net of direct expenses of \$23,914)	178,285	7,821	-	186,106
Sales revenue	11,556	-	-	11,556
Investment income	30,849	2,059	-	32,908
Net assets released from restrictions	243,170	(243,170)	-	-
Total revenue	811,056	(139,461)	-	671,595
Expenses				
Program services	479,936	-	-	479,936
Management and general	87,625	-	-	87,625
Fundraising	63,048	-	-	63,048
Total expenses	630,609	-	-	630,609
Change in net assets	180,447	(139,461)	-	40,986
Net assets, beginning of year	2,092,243	878,208	1,947,560	4,918,011
Net assets, end of year	\$ 2,272,690	\$ 738,747	\$ 1,947,560	\$ 4,958,997

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

Fairfax Library Foundation

Statement of Functional Expenses for the year ended June 30, 2017

	Program Services	Management and General	Fundraising	Total
Program benefits awarded	\$ 244,797	\$ -	\$ -	\$ 244,797
Salaries and benefits	39,652	5,665	11,329	56,646
Graphics and printing	40,120	4,443	436	44,999
Fees and other charges	30,153	804	1,878	32,835
Accounting service	-	11,443	-	11,443
Office supplies and expense	3,732	1,028	-	4,760
Computer maintenance and supplies	12,834	1,774	1,904	16,512
Meetings and recruitment	2,403	105	180	2,688
Dues and membership	-	553	642	1,195
Training	399	2,000	-	2,399
Travel	241	241	118	600
Postage	342	2,773	111	3,226
Insurance	3,659	466	-	4,125
Licenses and permits	-	425	-	425
Telephone	-	2,395	-	2,395
Contracted Staff	1,595	-	-	1,595
Advertising	-	-	71	71
Other	20	-	-	20
	<u>379,947</u>	<u>34,115</u>	<u>16,669</u>	<u>430,731</u>
In-kind salaries and benefits	182,905	26,129	52,259	261,293
In-kind office space	11,747	1,678	3,356	16,781
	<u>194,652</u>	<u>27,807</u>	<u>55,615</u>	<u>278,074</u>
Total functional expenses	<u>\$ 574,599</u>	<u>\$ 61,922</u>	<u>\$ 72,284</u>	<u>\$ 708,805</u>

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

Fairfax Library Foundation

Statement of Functional Expenses for the year ended June 30, 2016

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Program benefits awarded	\$ 219,224	\$ -	\$ -	\$ 219,224
Salaries and benefits	16,341	40,170	-	56,511
Graphics and printing	25,496	2,611	6,079	34,186
Fees and other charges	29,916	1,632	1,607	33,155
Accounting service	-	11,231	-	11,231
Office supplies and expense	802	749	27	1,578
Depreciation	636	91	182	909
Computer maintenance and supplies	13,696	1,537	1,428	16,661
Meetings and recruitment	3,284	451	168	3,903
Dues and membership	150	620	250	1,020
Donor cultivation	51	-	-	51
Training	248	354	136	738
Travel	560	500	83	1,143
Postage	-	-	5,539	5,539
Insurance	3,938	909	-	4,847
Licenses and permits	-	395	250	645
Telephone	-	2,483	-	2,483
Other	48	243	-	291
	<u>314,390</u>	<u>63,976</u>	<u>15,749</u>	<u>394,115</u>
In-kind salaries and benefits	<u>165,546</u>	<u>23,649</u>	<u>47,299</u>	<u>236,494</u>
Total functional expenses	<u><u>\$ 479,936</u></u>	<u><u>\$ 87,625</u></u>	<u><u>\$ 63,048</u></u>	<u><u>\$ 630,609</u></u>

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

Fairfax Library Foundation

Statements of Cash Flows

for the years ended June 30,

2017

2016

Cash flows from operating activities

Change in net assets	\$ 428,120	\$ 40,986
Adjustments to reconcile change in net assets to net cash provided from operating activities		
Depreciation	-	908
Unrealized and realized (gain) loss on investments	(380,493)	34,578
Decrease in operating assets		
Pledges receivable	213	7,216
Prepaid expenses and other assets	163	23,086
Increase in operating liabilities		
Accounts payable and accrued expenses	(2,094)	20,283
Net cash provided by operating activities	<u>45,909</u>	<u>127,057</u>

Cash flows from investing activities

Proceeds from sale of certificate of deposit	-	73,436
Proceeds from sale of investments	568,879	591,224
Purchase of investments	(495,131)	(563,328)
Net cash provided by investing activities	<u>73,748</u>	<u>101,332</u>

Net change in cash and cash equivalents

119,657 228,389

Cash and cash equivalents, beginning of year

644,002 415,613

Cash and cash equivalents, end of year

\$ 763,659 \$ 644,002

Supplemental disclosure of cash flow information

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

Noncash investing activities from Friends' Group Investments

Purchase of investments	\$ 180,000	\$ -
Unrealized and realized (gain) loss on investments	238	-
Dividend and interest income on investments	222	-
Investment management fees	(232)	-
	<u>\$ 180,228</u>	<u>\$ -</u>

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

Fairfax Library Foundation

Notes to Financial Statements June 30, 2017 and 2016

1. Organization

Fairfax Library Foundation (the Foundation), a nonprofit organization, was established in 1994 to provide supplementary support to the Fairfax County Public Library. The Foundation, while reinforcing the need for continued and increased public support for the library, serves as a catalyst for attracting private funding from individuals, businesses, organizations and civic groups to enhance library services for our community. The Foundation is supported primarily through donor and in-kind contributions. The Foundation uses contributions to support the library in areas of focus. The Foundation uses contributions to fund the purchase of books and materials for the 23 library branches. Expanding the collection of resources allows the library to maintain the most up-to-date materials, as well as to provide new digital, print, and other non-print materials to keep up with demand.

The Foundation funds the Ready to Read Early Literacy Outreach, a program which brings the first essential skills of reading to preschool-aged children. Preschoolers in childcare centers or Head Start classrooms are introduced to the joys of reading by a literacy outreach representative who visits the children for story time. Following the reading session, picture books are given both to the children and their caregivers to extend the benefits of early literacy by incorporating books into everyday life. The program reaches children who are unable or who are not taken by their caregivers to the library. Presentations for the library are supported by the Foundation, including the Fall For The Book literary festival and the FCPL Summer Reading Program, among others. The importance of reading, literacy and the library are brought to the attention of the community through the Foundation. The Foundation also supports Changing Lives Through Literature, a program which is an alternative to formal court action for first-time juvenile offenders and is used in conjunction with probation and parole. The program uses the power of literature to transform lives by helping participants learn about themselves, gaining insight about their own lives and behavior. Through reading and group discussions, the program rehabilitates offenders by building self-esteem, encouraging critical thinking, facilitating an understanding of how one's actions impact others, and teaching offenders that they are not alone with their troubles.

The Foundation is also proud to fund academic scholarships (undergraduate and graduate) and continuing education scholarships. These scholarships are open to employees and volunteers of Fairfax County Public Library. Continuing Education scholarships are awarded semi-annually and provide opportunities for current library employees or volunteers that are not enrolled in a formal degree program to continue their education (through classes, conferences, and other professional enhancement courses) to foster the professional development of the Fairfax County Public Library system team. Masters of Library Sciences scholarships are merit-based and available to individuals pursuing a master's degree in library science at an American Library Association (ALA) accredited school. Eligible applicants must be enrolled or have been accepted for enrollment by an ALA-accredited school. Undergraduate academic scholarships are merit-based awards available to any current employee or volunteer with Fairfax County Public Library. In order to be eligible, an awardee may be asked to complete up to a maximum of 60 volunteer hours within a 12-month period. Fairfax Library Foundation is pleased to enrich the Fairfax County Public Library.

See independent auditor's report.

Fairfax Library Foundation

Notes to Financial Statements June 30, 2017 and 2016

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.

Revenue recognition

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.

At year-end and throughout the year, the Foundation's cash balances were deposited in several banks which may exceed federally insured limits. FDIC insurance on interest bearing accounts is \$250,000 per depositor, per insured bank. The Foundation has not experienced any losses on its cash equivalents and management does not believe this results in any significant credit risk.

Pledges receivable

Pledges receivable are reported at full value as all amounts are deemed fully collectible. Pledges receivable as of June 30, 2017 and 2016 are expected to be collected within one year. Accordingly, no allowance for doubtful accounts is required.

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. Property and equipment were fully depreciated as of year ended June 30, 2016. Depreciation expense for the year ended June 30, 2016 was \$908.

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 statements 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

Notes to Financial Statements June 30, 2017 and 2016

2. Significant accounting policies (continued)

Friends' Group investments

Friends' Group investments represent funds held by the Foundation for the benefit of the Friends' Group libraries. At all times the Friends' Group is the sole and exclusive owner and has control over the funds. The Foundation serves as the administrator of the investment funds. These funds are shown as an asset and liability on the statements of financial position and are not included as cash and cash equivalents for the purpose of the statements of cash flows. Investment income is not included in the statement of activities.

Other financial assets and liabilities

Financial assets with carrying values approximating fair value include cash and cash equivalents, pledges receivable, and prepaid expenses and other assets. Financial liabilities with carrying values approximating fair value include accounts payable and accrued expenses and other liabilities. 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 the salaries and benefits of three employees 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 for rent was recorded for year ended June 30, 2016 since there was no reliable basis for measurement. For the year ended June 30, 2017, Fairfax County provided details regarding the donated office space along with a basis for measurement. Donated property is reflected as revenue at the fair market value of the property on date of donation. Donated office space and other donated services received are reflected as revenue at the fair market value. In-kind contributions are detailed at Note 6 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.

In general, investments are exposed to various risks, 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.

See independent auditor's report.

Fairfax Library Foundation

Notes to Financial Statements June 30, 2017 and 2016

2. Significant accounting policies (continued)

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.

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.

Income taxes

The Fairfax Library Foundation is exempt from federal income tax as a nonprofit organization described in Section 501(c)(3) of the Internal Revenue Code and is classified as an organization other than a private foundation. For the years ended June 30, 2017 and 2016, the Foundation did not have unrelated business income subject to income taxes. Accordingly, no provision for income taxes has been included in these financial statements.

The Foundation is subject to taxation in the U.S. and a small number of state and local jurisdictions. The material jurisdictions subject to potential examination by taxing authorities include the United States and Virginia. Management 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 the fiscal years ended June 30, 2014 through June 30, 2017.

3. Cash and cash equivalents

Cash and cash equivalents as of June 30, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
Checking	\$ 324,022	\$ 207,790
Money market funds	439,637	436,212
	<u>\$ 763,659</u>	<u>\$ 644,002</u>
Amount covered by Federal Deposit Insurance Corporation (FDIC)	<u>\$ 726,067</u>	<u>\$ 597,073</u>

See independent auditor's report.

Fairfax Library Foundation

Notes to Financial Statements June 30, 2017 and 2016

4. Investments

Investments as of June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Cash and money market funds	\$ 137,559	\$ 460,245
Mutual funds	4,497,839	3,868,408
	<u>\$ 4,635,398</u>	<u>\$ 4,328,653</u>

Investment income for the years ended June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Realized and unrealized gains (losses)	\$ 380,493	\$ (34,578)
Interest and dividend income	65,515	67,486
	<u>\$ 446,008</u>	<u>\$ 32,908</u>

Investment fees of \$30,153 and \$30,346 were paid for the years ended June 30, 2017 and 2016, respectively, and are included in fees and other charges on the accompanying statements of functional expenses.

5. Property and equipment

Property and equipment for the year ended June 30, 2017 consists of the following:

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Depreciation expense</u>	<u>Useful life</u>
Furniture and fixtures	\$ 3,240	\$ 3,240	\$ -	5 years
Computer equipment and software	19,821	19,821	-	3 - 5 years
Total	<u>\$ 23,061</u>	<u>\$ 23,061</u>	<u>\$ -</u>	

Property and equipment for the year ended June 30, 2016 consists of the following:

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Depreciation expense</u>	<u>Useful life</u>
Furniture and fixtures	\$ 3,240	\$ 3,240	\$ -	5 years
Computer equipment and software	19,821	19,821	909	3 - 5 years
Total	<u>\$ 23,061</u>	<u>\$ 23,061</u>	<u>\$ 909</u>	

See independent auditor's report.

Fairfax Library Foundation

Notes to Financial Statements June 30, 2017 and 2016

6. In-kind contributions

In-kind contributions for the years ended June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Salaries and benefits	\$ 261,293	\$ 236,494
Office space	16,781	-
Books	10,910	9,922
Other	3,000	51
	<u>\$ 291,984</u>	<u>\$ 246,467</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, 2017 and 2016, this contribution totaled \$261,293 and \$236,494, respectively. The Fairfax County Public Library also provides office space as an in-kind contributions, which was valued at \$16,781 for the year ended June 30, 2017.

7. Temporarily restricted net assets

During 1996, the Foundation received a bequest from a trust (Macleod fund). Additional donations received are added to the temporarily restricted balance. This contribution was donor-restricted for the purchase of recorded books. The Board has designated that the Macleod fund be held in an endowment fund and distributed in accordance with the spending policy described in Note 10. At June 30, 2017 and 2016, the donor-restricted amount was \$310,441 and \$330,437, respectively.

See independent auditor's report.

Fairfax Library Foundation

Notes to Financial Statements June 30, 2017 and 2016

7. Temporarily restricted net assets (continued)

A summary of activity in temporarily restricted net assets as of June 30, 2017 was as follows:

	Beginning Balance	Revenue	Releases	Ending Balance
Program activities				
FCPL branches and general library support	\$ -	\$ 55,570	\$ (39,416)	\$ 16,154
Scholarships	-	22,200	(22,200)	-
American Initiative	-	6,200	-	6,200
Books Before Kindergarten	-	3,000	(3,000)	-
Changing Lives Through Literature	109	8,500	(8,609)	-
Dominion Women's Club	-	450	(450)	-
Early literature	-	30,850	(30,850)	-
Jubilee - 2017	7,821	-	(7,821)	-
	<u>7,930</u>	<u>126,770</u>	<u>(112,346)</u>	<u>22,354</u>
Program activities held in endowment funds				
Purchase of recorded books (Macleod fund)	330,437	-	(19,996)	310,441
General fund - George Mason friends scholarship	-	50,000	(5,000)	45,000
FCPL branches	62,810	741	-	63,551
Portion of donor-restricted endowments subject to a time restriction under UPMIFA				
General fund	110,680	145,249	(54,334)	201,595
Children's Reading Program fund	226,890	71,749	-	298,639
Total temporarily restricted net assets	<u>\$ 738,747</u>	<u>\$ 394,509</u>	<u>\$ (191,676)</u>	<u>\$ 941,580</u>

See independent auditor's report.

Fairfax Library Foundation

Notes to Financial Statements June 30, 2017 and 2016

7. Temporarily restricted net assets (continued)

A summary of activity in temporarily restricted net assets as of June 30, 2016 was as follows:

	Beginning Balance	Revenue	Releases	Ending Balance
Program activities				
FCPL branches and general library support	\$ -	\$ 16,059	\$ (16,059)	\$ -
Scholarships	3,012	11,250	(14,262)	-
Book conference	-	1,684	(1,684)	-
Changing Lives Through Literature	-	15,500	(15,391)	109
Early literature	-	10,600	(10,600)	-
Jubilee - 2016	26,186	-	(26,186)	-
Jubilee - 2017	-	7,821	-	7,821
	<u>29,198</u>	<u>62,914</u>	<u>(84,182)</u>	<u>7,930</u>
Program activities held in endowment funds				
Purchase of recorded books (Macleod fund)	364,637	-	(34,200)	330,437
FCPL Branches	74,153	38,736	(50,079)	62,810
Portion of donor-restricted endowments subject to a time restriction under UPMIFA				
General fund	153,612	6,277	(49,209)	110,680
Children's Reading Program fund	256,608	(4,218)	(25,500)	226,890
Total temporarily restricted net assets	<u>\$ 878,208</u>	<u>\$ 103,709</u>	<u>\$ (243,170)</u>	<u>\$ 738,747</u>

8. Permanently restricted net assets

Permanently restricted net assets included the following:

	2017	2016
General Endowment	\$ 1,447,560	\$ 1,447,560
Children's Reading Program fund	500,000	500,000
	<u>\$ 1,947,560</u>	<u>\$ 1,947,560</u>

See independent auditor's report.

Fairfax Library Foundation

Notes to Financial Statements June 30, 2017 and 2016

8. Permanently restricted net assets (continued)

The General Endowment was established to enhance the services and resources of the Fairfax County Public Library in the 21st century. Donations may be given as a general contribution to the permanent endowment or may be directed to one of four areas within the permanent endowment: books, the virtual library, community programs or scholarships.

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 County Public Library. The Friends contributed \$500,000, and, once approved by the Friends, \$25,000 of earnings on the endowment will be expended annually for the Children's Reading Program.

9. Endowment funds

The Foundation endowment funds consist of four 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.

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

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Notes to Financial Statements June 30, 2017 and 2016

9. Endowment funds (continued)

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 and FCPL Branches, the Foundation has a policy of appropriating for distribution each year four percent of the endowment funds' average fair value over the previous five calendar 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. 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.

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Notes to Financial Statements June 30, 2017 and 2016

9. Endowment funds (continued)

Endowment net asset composition by type of fund

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

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds				
General fund	\$ -	\$ 201,595	\$ 1,447,560	\$ 1,649,155
General fund - George Mason friends scholarship	-	45,000	-	45,000
Children's Reading Program fund	(26,900)	298,639	500,000	771,739
FCPL Branches	224,970	63,551	-	288,521
Total donor-restricted endowment funds	<u>198,070</u>	<u>608,785</u>	<u>1,947,560</u>	<u>2,754,415</u>
Board-designated endowment funds				
Macleod fund	671,019	310,441	-	981,460
General fund	899,523	-	-	899,523
Total board-designated endowment funds	<u>1,570,542</u>	<u>310,441</u>	<u>-</u>	<u>1,880,983</u>
Total endowment funds	<u>\$ 1,768,612</u>	<u>\$ 919,226</u>	<u>\$ 1,947,560</u>	<u>\$ 4,635,398</u>
	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds				
General fund	\$ -	\$ 110,680	\$ 1,447,560	\$ 1,558,240
Children's Reading Program fund	-	226,890	500,000	726,890
Total donor-restricted endowment funds	<u>-</u>	<u>337,570</u>	<u>1,947,560</u>	<u>2,285,130</u>
Board-designated endowment funds				
Macleod fund	594,992	330,437	-	925,429
General fund	849,933	-	-	849,933
FCPL Branches	205,351	62,810	-	268,161
Total board-designated endowment funds	<u>1,650,276</u>	<u>393,247</u>	<u>-</u>	<u>2,043,523</u>
Total endowment funds	<u>\$ 1,650,276</u>	<u>\$ 730,817</u>	<u>\$ 1,947,560</u>	<u>\$ 4,328,653</u>

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Fairfax Library Foundation

Notes to Financial Statements June 30, 2017 and 2016

9. Endowment funds (continued)

Changes in endowment net assets

The endowment net activity consisted of the following:

Endowment funds as of June 30, 2015	\$ 1,594,557	\$ 849,010	\$ 1,947,560	\$ 4,391,127
Investment return				
Investment income	30,782	34,803	-	65,585
Net appreciation	(16,819)	(16,684)	-	(33,503)
Investment fees	(14,286)	(16,060)	-	(30,346)
Total investment return	(323)	2,059	-	1,736
Contributions to perpetual endowment	76,341	-	-	76,341
Amounts appropriated for expenditure	(20,299)	(120,252)	-	(140,551)
Endowment funds as of June 30, 2016	<u>\$ 1,650,276</u>	<u>\$ 730,817</u>	<u>\$ 1,947,560</u>	<u>\$ 4,328,653</u>
Investment return				
Investment income	\$ 30,393	\$ 32,311	\$ -	\$ 62,704
Net appreciation	180,971	200,604	-	381,575
Investment fees	(14,237)	(15,916)	-	(30,153)
Total investment return	197,127	216,999	-	414,126
Contributions to perpetual endowment	-	125,852	-	125,852
Amounts appropriated for expenditure	(56,380)	(125,139)	-	(181,519)
Endowment funds as of June 30, 2017	<u>\$ 1,791,023</u>	<u>\$ 948,529</u>	<u>\$ 1,947,560</u>	<u>\$ 4,687,112</u>

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. There were no such deficiencies as of June 30, 2017 and 2016.

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Notes to Financial Statements June 30, 2017 and 2016

10. Fair value measurements

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, 2017:

	Level 1	Level 2	Level 3	Total
Investments - endowment funds				
Cash and money market funds	\$ 137,558	\$ -	\$ -	\$ 137,558
Mutual funds				
Fixed Income				
iShares Barclays 1-3 years	286,340	-	-	286,340
iShares Barclays Tips	475,612	-	-	475,612
iShares Barclays 3-7 years	282,092	-	-	282,092
iShares Core Total U.S.	474,069	-	-	474,069
Equities				
iShares Russell 1000	1,044,041	-	-	1,044,041
Revenue shares Small Cap	742,904	-	-	742,904
iShares Currency Hedged	770,893	-	-	770,893
SP500 ARN Issuer Barc	421,890	-	-	421,890
	<u>4,635,398</u>	<u>-</u>	<u>-</u>	<u>4,635,398</u>
Investments - Friends' Group investments				
Cash and money market funds	9,753	-	-	9,753
Mutual funds				
Fixed Income				
iShares Barclays 1-3 years	11,491	-	-	11,491
iShares Barclays Tips	19,510	-	-	19,510
iShares Barclays 3-7 years	11,863	-	-	11,863
iShares Core Total U.S.	19,712	-	-	19,712
Equities				
iShares Russell 1000	54,318	-	-	54,318
Revenue shares Small Cap	26,214	-	-	26,214
iShares Currency Hedged	27,367	-	-	27,367
	<u>180,228</u>	<u>-</u>	<u>-</u>	<u>180,228</u>
Total investments reported at fair value	<u>\$ 4,815,626</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,815,626</u>

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Fairfax Library Foundation

Notes to Financial Statements June 30, 2017 and 2016

10. Fair value measurements (continued)

Assets measured at fair value on a recurring basis are summarized below as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 460,245	\$ -	\$ -	\$ 460,245
Mutual funds				
Fixed Income				
iShares Barclays 1-3 years	299,478	-	-	299,478
iShares Barclays Tips	509,965	-	-	509,965
iShares Barclays 3-7 years	305,033	-	-	305,033
iShares Core Total U.S.	507,105	-	-	507,105
Equities				
iShares Russell 1000	1,352,743	-	-	1,352,743
iShares Hedged MSCI EAFE	250,711	-	-	250,711
Microsoft Corp	1,023	-	-	1,023
Oppenheimer Small Cap Revenue	642,350	-	-	642,350
Total investments reported at fair value	<u>\$ 4,328,653</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,328,653</u>

11. Subsequent events

The Foundation assessed events occurring subsequent to June 30, 2017 through October 18, 2017, 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.

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