

# FAIRFAX LIBRARY FOUNDATION

FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018



*Certified Public Accountants*

## Table of Contents

### Independent Auditor's Report

### Financial Statements

Statements of Financial Position.....	4
Statements of Activities.....	5 - 6
Statements of Functional Expenses.....	7 - 8
Statements of Cash Flows.....	9
Notes to Financial Statements.....	10 - 22



*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, 2019 and 2018, 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 from material misstatement.

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

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

### **Opinion**

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, 2019 and 2018, 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 14, 2019

# Fairfax Library Foundation

## Statements of Financial Position June 30,

2019

2018

### Assets

#### Current assets

Cash and cash equivalents	\$ 716,912	\$ 700,635
Pledges receivable	8,986	4,577
Prepaid expenses and other assets	23,622	22,681
	<u>749,520</u>	<u>727,893</u>

#### Property and equipment, net of accumulated depreciation

1,949 2,438

#### Other assets

Investments - endowment funds	4,900,625	4,805,403
Friends' Group investments	214,168	208,473
	<u>5,114,793</u>	<u>5,013,876</u>
Total assets	<u>\$ 5,866,262</u>	<u>\$ 5,744,207</u>

### Liabilities and net assets

#### Current liabilities

Accounts payable and accrued expenses	\$ 25,836	\$ 32,198
---------------------------------------	-----------	-----------

#### Funds held on behalf of Friends' Group

	214,168	208,473
Total liabilities	<u>240,004</u>	<u>240,671</u>

#### Net assets

Without donor restrictions	2,647,220	2,558,367
With donor restrictions	2,979,038	2,945,169
Total net assets	<u>5,626,258</u>	<u>5,503,536</u>
Total liabilities and net assets	<u>\$ 5,866,262</u>	<u>\$ 5,744,207</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, 2019

	Without donor restrictions	With donor restrictions	Total
<b>Revenue</b>			
Contributions	\$ 135,836	\$ 114,764	\$ 250,600
In-kind contributions	232,645	8,659	241,304
Special event (net of direct expenses of \$23,936)	87,836	-	87,836
Sales revenue	4,563	-	4,563
Investment income, net	104,987	114,738	219,725
Net assets released from restrictions	204,292	(204,292)	-
Total revenue	770,159	33,869	804,028
<b>Expenses</b>			
Program services			
Early literature	274,008	-	274,008
Books and materials	138,975	-	138,975
Presentations	59,184	-	59,184
Scholarships	67,762	-	67,762
Changing lives through literature	14,483	-	14,483
Total program services	554,412	-	554,412
Supporting services			
Management and general	60,858	-	60,858
Fundraising	66,036	-	66,036
Total supporting services	126,894	-	126,894
Total expenses	681,306	-	681,306
<b>Change in net assets</b>	88,853	33,869	122,722
<b>Net assets, beginning of year</b>	2,558,367	2,945,169	5,503,536
<b>Net assets, end of year</b>	\$ 2,647,220	\$ 2,979,038	\$ 5,626,258

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, 2018

---

	Without donor restrictions	With donor restrictions	Total
<b>Revenue</b>			
Contributions	\$ 121,904	\$ 98,624	\$ 220,528
In-kind contributions	270,551	15,353	285,904
Special event (net of direct expenses of \$19,901)	108,929	-	108,929
Sales revenue	4,659	-	4,659
Investment income, net	104,396	118,712	223,108
Net assets released from restrictions	176,660	(176,660)	-
Total revenue	<u>787,099</u>	<u>56,029</u>	<u>843,128</u>
<b>Expenses</b>			
Program services	593,436	-	593,436
Management and general	60,899	-	60,899
Fundraising	72,374	-	72,374
Total expenses	<u>726,709</u>	<u>-</u>	<u>726,709</u>
<b>Change in net assets</b>	60,390	56,029	116,419
<b>Net assets, beginning of year</b>	2,497,977	2,889,140	5,387,117
<b>Net assets, end of year</b>	<u>\$ 2,558,367</u>	<u>\$ 2,945,169</u>	<u>\$ 5,503,536</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, 2019**

	Program services					Supporting services		Cost of direct benefit to donors	Total	
	Early literature	Books and materials	Presentations	Scholarships	Changing lives through literature	Total program services	Management and general			Fundraising
<b>Expenses</b>										
Program benefits awarded	\$ 134,838	\$ 75,827	\$ 24,544	\$ 37,051	\$ 8,260	\$ 280,520	\$ -	\$ -	\$ -	\$ 280,520
Salaries and benefits	19,782	10,113	4,131	5,228	1,052	40,306	5,758	11,516	-	57,580
Graphics and printing	13,833	5,290	8,182	801	161	28,267	4,606	1,249	-	34,122
Fees and other charges	-	-	-	-	-	-	1,555	1,257	-	2,812
Accounting service	-	-	-	-	-	-	12,598	-	-	12,598
Office supplies and expense	4,467	-	28	-	-	4,495	256	170	-	4,921
Depreciation	191	98	40	51	10	390	50	49	-	489
Computer maintenance and supplies	9,979	5,101	2,084	2,637	531	20,332	2,573	2,780	-	25,685
Cost of direct benefit to donors	-	-	-	-	-	-	-	-	23,936	23,936
Meetings and recruitment	1,851	-	-	-	43	1,894	248	-	-	2,142
Dues and membership	269	-	-	-	-	269	518	791	-	1,578
Donor cultivation	-	-	-	-	-	-	-	143	-	143
Training	-	-	-	-	-	-	-	653	-	653
Travel	168	86	35	44	9	342	556	496	-	1,394
Postage	-	-	-	-	-	-	4,055	-	-	4,055
Insurance	951	487	199	252	51	1,940	2,313	-	-	4,253
Licenses and permits	-	-	-	-	-	-	485	-	-	485
Telephone	-	-	-	-	-	-	1,382	-	-	1,382
Contracted staff	5,775	1,239	506	641	129	8,290	491	492	-	9,273
Advertising	2,221	-	2,794	-	-	5,015	-	54	-	5,069
Other	-	-	-	-	-	-	221	-	-	221
	<u>194,325</u>	<u>98,241</u>	<u>42,543</u>	<u>46,705</u>	<u>10,246</u>	<u>392,060</u>	<u>37,665</u>	<u>19,650</u>	<u>23,936</u>	<u>473,311</u>
In-kind salaries and benefits	76,333	39,022	15,941	20,172	4,059	155,527	22,218	44,436	-	222,181
In-kind office space	3,350	1,712	700	885	178	6,825	975	1,950	-	9,750
	<u>79,683</u>	<u>40,734</u>	<u>16,641</u>	<u>21,057</u>	<u>4,237</u>	<u>162,352</u>	<u>23,193</u>	<u>46,386</u>	<u>-</u>	<u>231,931</u>
<b>Total expenses by function</b>	<u>274,008</u>	<u>138,975</u>	<u>59,184</u>	<u>67,762</u>	<u>14,483</u>	<u>554,412</u>	<u>60,858</u>	<u>66,036</u>	<u>23,936</u>	<u>705,242</u>
<b>Less expenses included with revenues on the statement of activities</b>										
Cost of direct benefit to donors	-	-	-	-	-	-	-	-	(23,936)	(23,936)
<b>Total expenses included in the expense section on the statement of activities</b>	<u>\$ 274,008</u>	<u>\$ 138,975</u>	<u>\$ 59,184</u>	<u>\$ 67,762</u>	<u>\$ 14,483</u>	<u>\$ 554,412</u>	<u>\$ 60,858</u>	<u>\$ 66,036</u>	<u>\$ -</u>	<u>\$ 681,306</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, 2018

Expenses	Program services	Management and general	Fundraising	Total
Program benefits awarded	\$ 271,632	\$ -	\$ -	\$ 271,632
Salaries and benefits	42,591	6,084	12,169	60,844
Graphics and printing	41,569	2,294	519	44,382
Fees and other charges	-	789	2,050	2,839
Accounting service	-	13,010	-	13,010
Office supplies and expense	6,890	580	15	7,485
Computer maintenance and supplies	23,225	1,987	2,166	27,378
Meetings and recruitment	3,527	780	-	4,307
Dues and membership	150	1,196	888	2,234
Donor cultivation	108	-	-	108
Training	-	150	60	210
Travel	129	247	138	514
Postage	568	1,490	10	2,068
Insurance	2,230	453	-	2,683
Licenses and permits	-	425	-	425
Telephone	594	2,316	74	2,984
Contracted staff	7,411	94	95	7,600
Advertising	3,463	-	91	3,554
Other	-	1,954	-	1,954
	<u>404,087</u>	<u>33,849</u>	<u>18,275</u>	<u>456,211</u>
In-kind salaries and benefits	177,602	25,372	50,743	253,717
In-kind office space	11,747	1,678	3,356	16,781
	<u>189,349</u>	<u>27,050</u>	<u>54,099</u>	<u>270,498</u>
<b>Total functional expenses</b>	<u>\$ 593,436</u>	<u>\$ 60,899</u>	<u>\$ 72,374</u>	<u>\$ 726,709</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,

2019

2018

### Cash flows from operating activities

Change in net assets	\$ 122,722	\$ 116,419
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	489	-
Unrealized and realized gain on investments	(141,002)	(166,604)
Decrease (increase) in operating assets		
Pledges receivable	(4,409)	2,295
Prepaid expenses and other assets	(941)	(7,712)
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	(6,362)	(1,583)
Net cash used in operating activities	<u>(29,503)</u>	<u>(57,185)</u>

### Cash flows from investing activities

Proceeds from sale of investments	608,527	794,953
Purchase of investments	(562,747)	(798,354)
Purchase of equipment	-	(2,438)
Net cash provided by (used in) investing activities	<u>45,780</u>	<u>(5,839)</u>

### Net change in cash and cash equivalents

16,277 (63,024)

### Cash and cash equivalents, beginning of year

700,635 763,659

### Cash and cash equivalents, end of year

\$ 716,912 \$ 700,635

### Supplemental disclosure of cash flow information

Cash paid for interest	\$ -	\$ -
Income taxes paid	\$ -	\$ -

### Noncash investing activities from Friends' Group Investments

Purchase of investments	\$ -	\$ 17,500
Unrealized and realized gain on investments	1,279	8,281
Dividend and interest income on investments	5,036	3,798
Investment management fees	(620)	(1,334)
	<u>\$ 5,695</u>	<u>\$ 28,245</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, 2019 and 2018

---

### 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.

### 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.

# Fairfax Library Foundation

## Notes to Financial Statements June 30, 2019 and 2018

---

### Revenue recognition

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 in two categories as described below.

Net assets without donor restrictions are net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for endowment funds.

Net assets with donor restrictions are net assets subject to donor-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.

### 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, 2019 and 2018 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. Depreciation expense for the years ended June 30, 2019 and 2018 was \$489 and \$0, respectively.

### Investments

Investments are carried at their fair 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 net assets without donor restrictions unless the income or loss is restricted by donor or law.

### 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 statements of activities.

See independent auditor's report.

# Fairfax Library Foundation

## Notes to Financial Statements June 30, 2019 and 2018

---

### **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. 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 the value paid by Fairfax County. The Foundation receives rent-free use of office space from Fairfax County, Virginia. For the years ended June 30, 2019 and 2018, Fairfax County provided details regarding the donated office space along with a basis for measurement. Donated property is reflected as revenue at the fair value of the property on date of donation. Other in-kind contributions received are reflected as revenue at the fair 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.

### **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. Salaries and benefits, computer maintenance and supplies, travel, insurance, contracted staff, in-kind salaries and benefits, and in-kind office space have been allocated across functional areas based on an estimate of time spent by personnel.

### **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, 2019 and 2018, 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 U.S. 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, 2016 through June 30, 2019.

See independent auditor's report.

# Fairfax Library Foundation

## Notes to Financial Statements June 30, 2019 and 2018

---

### Recently adopted accounting pronouncements

In August 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. ASU 2016-14 represents phase 1 of FASB's Not-for-Profit financial reporting project and reduces the number of net asset classes, requires expense presentation by functional and natural classification, requires quantitative and qualitative information on liquidity, retains the option to present the cash flow statement on a direct or indirect method, and includes various other additional disclosure requirements. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017 with retrospective application. The Foundation adopted this ASU as of and for the year ended June 30, 2019.

### Reclassifications

Certain reclassifications, such as presenting investment expenses as a reduction of investment income on the statement of activities, have been made to the June 30, 2018 financial statement presentation to correspond to the current year's format due to the adoption of ASU 2016-14. Net assets and changes in net assets are unchanged due to these reclassifications.

### Upcoming accounting pronouncements

The FASB has issued Accounting Standards Update (ASU) 2014-09 (as amended by ASU 2015-14), which provides a single comprehensive accounting standard for revenue recognition for contracts with customers and supersedes current industry-specific guidance. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018. Fairfax Library Foundation plans to adopt the standard on its effective date, which for Fairfax Library Foundation is July 1, 2019.

The FASB issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance clarifies how entities will determine whether to account for a transfer of assets (or a reduction, settlement or cancellation of a liability) as an exchange transaction or a contribution and how they will determine whether a contribution is conditional. ASU 2018-08 is effective for annual reporting periods beginning after December 15, 2018. Fairfax Library Foundation plans to adopt the standard on its effective date, which for Fairfax Library Foundation is July 1, 2019.

The FASB has issued ASU 2016-02, which requires lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by leases with terms greater than 12 months. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019. Fairfax Library Foundation plans to adopt the standard on its effective date, which for Fairfax Library Foundation is July 1, 2020.

### 3. Cash and cash equivalents

Cash and cash equivalents as of June 30, 2019 and 2018, consisted of the following:

	2019	2018
Checking	\$ 258,611	\$ 248,869
Money market funds	458,301	451,766
	<u>\$ 716,912</u>	<u>\$ 700,635</u>
Amount covered by Federal Deposit Insurance Corporation (FDIC)	<u>\$ 667,128</u>	<u>\$ 682,867</u>

See independent auditor's report.

# Fairfax Library Foundation

## Notes to Financial Statements June 30, 2019 and 2018

---

### 4. Investments

Investments as of June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Cash and money market funds	\$ 217,954	\$ 155,784
Mutual funds	3,659,613	3,727,349
Market-linked investments	1,023,058	922,270
	<u>\$ 4,900,625</u>	<u>\$ 4,805,403</u>

Investment income for the years ended June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Realized and unrealized gains	\$ 141,002	\$ 166,604
Interest and dividend income	104,099	86,119
Investment fees	(25,376)	(29,615)
	<u>\$ 219,725</u>	<u>\$ 223,108</u>

### 5. Property and equipment

Property and equipment for the years ended June 30, 2019 and 2018 consists of the following:

	<u>2019</u>	<u>2018</u>	<u>Useful life</u>
Property and equipment, cost	\$ 25,499	\$ 25,499	3 - 5 years
Accumulated depreciation	(23,550)	(23,061)	
	<u>\$ 1,949</u>	<u>\$ 2,438</u>	

### 6. In-kind contributions

In-kind contributions for the years ended June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Salaries and benefits	\$ 222,181	\$ 253,717
Office space	9,750	16,781
Books	8,659	15,209
Other	714	197
	<u>\$ 241,304</u>	<u>\$ 285,904</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, 2019 and 2018, this contribution totaled \$222,181 and \$253,717, respectively. The Fairfax County Public Library also provides office space as an in-kind contribution, which was valued at \$9,750 and \$16,781 for the years ended June 30, 2019 and 2018, respectively.

See independent auditor's report.

# Fairfax Library Foundation

## Notes to Financial Statements June 30, 2019 and 2018

### 7. Net assets with donor restrictions

A summary of activity in net assets with donor restrictions as of June 30, 2019 was as follows:

	Beginning Balance	Additions	Releases	Ending Balance
Subject to expenditure for specified purpose				
FCPL branches and general library support	\$ 6,553	\$ 57,936	\$ (62,443)	\$ 2,046
Scholarships	-	23,025	(23,025)	-
American Initiative	17,100	2,000	-	19,100
Books Before Kindergarten	-	12,500	(8,455)	4,045
Changing Lives Through Literature	-	10,755	(8,058)	2,697
Dollywood	-	12,025	(12,025)	-
Early literature	-	4,100	(4,100)	-
	<u>23,653</u>	<u>122,341</u>	<u>(118,106)</u>	<u>27,888</u>
Subject to expenditure for specified purpose, held in board-designated endowment funds				
Purchase of recorded books (Macleod fund)	287,239	-	(21,082)	266,157
General fund - George Mason friends scholarship	40,000	-	(5,000)	35,000
FCPL branches	63,551	-	-	63,551
	<u>390,790</u>	<u>-</u>	<u>(26,082)</u>	<u>364,708</u>
Endowment earnings subject to spending policy and appropriation				
General fund	221,398	76,892	(59,642)	238,648
Children's Reading Program fund	361,768	37,846	(462)	399,152
	<u>583,166</u>	<u>114,738</u>	<u>(60,104)</u>	<u>637,800</u>
Donor-restricted endowments subject to a perpetual restriction				
General Endowment	1,447,560	1,082	-	1,448,642
Children's Reading Program fund	500,000	-	-	500,000
	<u>1,947,560</u>	<u>1,082</u>	<u>-</u>	<u>1,948,642</u>
Total net assets with donor restrictions	<u>\$ 2,945,169</u>	<u>\$ 238,161</u>	<u>\$ (204,292)</u>	<u>\$ 2,979,038</u>

See independent auditor's report.

# Fairfax Library Foundation

## Notes to Financial Statements June 30, 2019 and 2018

A summary of activity in net assets with donor restrictions as of June 30, 2018 was as follows:

	Beginning Balance	Additions	Releases	Ending Balance
Subject to expenditure for specified purpose				
FCPL branches and general library support	\$ 16,154	\$ 51,344	\$ (60,945)	\$ 6,553
Scholarships	-	12,250	(12,250)	-
American Initiative	6,200	10,900	-	17,100
Books Before Kindergarten	-	775	(775)	-
Changing Lives Through Literature	-	3,570	(3,570)	-
Early literature	-	10,325	(10,325)	-
	<u>22,354</u>	<u>89,164</u>	<u>(87,865)</u>	<u>23,653</u>
Subject to expenditure for specified purpose, held in board-designated endowment funds				
Purchase of recorded books (Macleod fund)	310,441	-	(23,202)	287,239
General fund - George Mason friends scholarship	45,000	-	(5,000)	40,000
FCPL Branches	63,551	-	-	63,551
	<u>418,992</u>	<u>-</u>	<u>(28,202)</u>	<u>390,790</u>
Endowment earnings subject to spending policy and appropriation				
General fund	201,595	80,052	(60,249)	221,398
Children's Reading Program fund	298,639	63,473	(344)	361,768
	<u>500,234</u>	<u>143,525</u>	<u>(60,593)</u>	<u>583,166</u>
Donor-restricted endowments subject to a perpetual restriction				
General Endowment	1,447,560	-	-	1,447,560
Children's Reading Program fund	500,000	-	-	500,000
	<u>1,947,560</u>	<u>-</u>	<u>-</u>	<u>1,947,560</u>
Total net assets with donor restrictions	<u>\$ 2,889,140</u>	<u>\$ 232,689</u>	<u>\$ (176,660)</u>	<u>\$ 2,945,169</u>

During 1996, the Foundation received a bequest from a trust (Macleod fund). Additional donations received are added to the net assets with donor restrictions 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 8. At June 30, 2019 and 2018, the donor-restricted amount was \$266,157 and \$287,239, respectively.

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 endowment or may be directed to one of four areas within the permanent endowment: books, the virtual library, community programs or scholarships.

See independent auditor's report.



# Fairfax Library Foundation

## Notes to Financial Statements June 30, 2019 and 2018

---

The Children's Reading Program fund was established as a permanent endowment by The George Mason Friends, Inc., for the intended purpose of supporting the Children's Reading Program of the Fairfax Country 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.

### 8. Endowment funds

The Foundation's 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 U.S. 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 net assets with donor restrictions perpetual in nature (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 net assets with donor restrictions perpetual in nature is classified as net assets with donor restrictions subject to expenditure for a specific purpose 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.

# Fairfax Library Foundation

## Notes to Financial Statements June 30, 2019 and 2018

---

### 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.

### Endowment net asset composition by type of fund

The endowment net assets consisted of the following as of June 30, 2019:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
<b>Donor-restricted endowment funds</b>			
General fund	\$ -	\$ 1,687,290	\$ 1,687,290
General fund - George Mason friends scholarship	-	35,000	35,000
Children's Reading Program fund	-	899,152	899,152
FCPL Branches	<u>250,846</u>	<u>63,551</u>	<u>314,397</u>
Total donor-restricted endowment funds	<u>250,846</u>	<u>2,684,993</u>	<u>2,935,839</u>
<b>Board-designated endowment funds</b>			
Macleod fund	782,075	266,157	1,048,232
General fund	<u>916,554</u>	<u>-</u>	<u>916,554</u>
Total board-designated endowment funds	<u>1,698,629</u>	<u>266,157</u>	<u>1,964,786</u>
Total endowment funds	<u>\$ 1,949,475</u>	<u>\$ 2,951,150</u>	<u>\$ 4,900,625</u>

See independent auditor's report.

# Fairfax Library Foundation

## Notes to Financial Statements June 30, 2019 and 2018

The endowment net assets consisted of the following as of June 30, 2018:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds			
General fund	\$ -	\$ 1,668,958	\$ 1,668,958
General fund - George Mason friends scholarship	-	40,000	40,000
Children's Reading Program fund	-	861,768	861,768
FCPL Branches	<u>238,513</u>	<u>63,551</u>	<u>302,064</u>
Total donor-restricted endowment funds	<u>238,513</u>	<u>2,634,277</u>	<u>2,872,790</u>
Board-designated endowment funds			
Macleod fund	735,342	287,239	1,022,581
General fund	<u>910,032</u>	-	<u>910,032</u>
Total board-designated endowment funds	<u>1,645,374</u>	<u>287,239</u>	<u>1,932,613</u>
Total endowment funds	<u>\$ 1,883,887</u>	<u>\$ 2,921,516</u>	<u>\$ 4,805,403</u>

### Changes in endowment net assets

The endowment net activity consisted of the following:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment funds as of June 30, 2017	\$ 1,768,612	\$ 2,866,786	\$ 4,635,398
Investment return, net	101,898	118,712	220,610
Contributions	26,900	24,813	51,713
Appropriation of endowments pursuant to a spending-rate policy	<u>(13,523)</u>	<u>(88,795)</u>	<u>(102,318)</u>
Endowment funds as of June 30, 2018	<u>\$ 1,883,887</u>	<u>\$ 2,921,516</u>	<u>\$ 4,805,403</u>
Investment return, net	99,642	114,738	214,380
Contributions	-	1,082	1,082
Appropriation of endowments pursuant to a spending-rate policy	<u>(34,054)</u>	<u>(86,186)</u>	<u>(120,240)</u>
Endowment funds as of June 30, 2019	<u>\$ 1,949,475</u>	<u>\$ 2,951,150</u>	<u>\$ 4,900,625</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, 2019 and 2018.

See independent auditor's report.

# Fairfax Library Foundation

## Notes to Financial Statements June 30, 2019 and 2018

---

### 9. Liquidity and availability

The Foundation strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in money market funds and other short-term investments.

The following table reflects the Foundation's financial assets as of June 30, 2019, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of donor or contractual restrictions:

Cash and cash equivalents	\$ 716,912
Pledges receivable	8,986
Endowment spending-rate distributions and appropriations	<u>129,838</u>
Total financial assets available within one year	855,736
Less amounts unavailable for general expenditure within one year due to:	
Restricted by donors with purpose restrictions	<u>(27,888)</u>
Total financial assets available to meet general expenditures within one year	<u>\$ 827,848</u>

The Foundation's board-designated endowment is subject to an annual spending rate as described in Note 8. Although the Foundation does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of our Board's annual budget approval and appropriation), these amounts could be made available if necessary.

### 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.

The Foundation's holdings in publicly traded mutual funds consist principally of fixed income and equity securities carried at their aggregate market value that is determined by quoted market prices. Each of these investments can be liquidated daily. Valuation is based on Level 1 inputs within the hierarchy used in measuring fair value.

Market-linked investments issued by Merrill Lynch are debt securities, or bonds, that have a return that is linked to the performance of another asset or assets. Market-linked investments are issued for fixed terms and provide exposure to the performance of a market index, an individual stock, commodities, foreign exchange or interest rates. Market-Linked Investments can be purchased in a new issue offering or in the secondary market. Returns are based on the performance of the underlying market, as well as the original terms under which that note was issued. Valuation is based on Level 2 inputs within the hierarchy used in measuring fair value.

# Fairfax Library Foundation

## Notes to Financial Statements June 30, 2019 and 2018

Assets measured at fair value on a recurring basis are summarized below as of June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments - endowment funds				
Cash and money market funds	\$ 217,954	\$ -	\$ -	\$ 217,954
Mutual funds				
Fixed Income				
iShares Barclays 1-3 year	333,377	-	-	333,377
iShares Barclays Tips	562,436	-	-	562,436
iShares Barclays 3-7 years	342,160	-	-	342,160
iShares Core Total U.S.	567,662	-	-	567,662
Equities				
iShares Russell 1000	709,372	-	-	709,372
Revenue shares Small Cap	425,437	-	-	425,437
iShares Currency Hedged	719,169	-	-	719,169
Market-linked investments				
SP500 CLIRN Issuer BNS	-	535,963	-	535,963
DJIA LIRN Issuer Barc	-	235,935	-	235,935
International Bkt LIRN Issuer HSBC	-	251,160	-	251,160
	<u>3,877,567</u>	<u>1,023,058</u>	<u>-</u>	<u>4,900,625</u>
Investments - Friends' Group investments				
Cash and money market funds	15,215	-	-	15,215
Mutual funds				
Fixed Income				
iShares Barclays 1-3 year	13,989	-	-	13,989
iShares Barclays Tips	23,791	-	-	23,791
iShares Barclays 3-7 years	14,211	-	-	14,211
iShares Core Total U.S.	23,940	-	-	23,940
Equities				
iShares Russell 1000	64,470	-	-	64,470
Revenue shares Small Cap	27,718	-	-	27,718
iShares Currency Hedged	30,834	-	-	30,834
	<u>214,168</u>	<u>-</u>	<u>-</u>	<u>214,168</u>
Total investments reported at fair value	<u>\$ 4,091,735</u>	<u>\$ 1,023,058</u>	<u>\$ -</u>	<u>\$ 5,114,793</u>

See independent auditor's report.

# Fairfax Library Foundation

## Notes to Financial Statements June 30, 2019 and 2018

Assets measured at fair value on a recurring basis are summarized below as of June 30, 2018:

	Level 1	Level 2	Level 3	Total
Investments - endowment funds				
Cash and money market funds	\$ 155,784	\$ -	\$ -	\$ 155,784
Mutual funds				
Fixed Income				
iShares Barclays 1-3 year	325,193	-	-	325,193
iShares Barclays Tips	549,677	-	-	549,677
iShares Barclays 3-7 years	323,775	-	-	323,775
iShares Core Total U.S.	542,019	-	-	542,019
Equities				
iShares Russell 1000	766,587	-	-	766,587
Revenue shares Small Cap	494,569	-	-	494,569
iShares Currency Hedged	724,346	-	-	724,346
Microsoft Corp	1,183	-	-	1,183
Market-linked investments				
SP500 ARN Issuer Barc	-	467,400	-	467,400
DJIA LIRN Issuer Barc	-	210,210	-	210,210
International Bkt LIRN Issuer HSBC	-	244,660	-	244,660
	<u>3,883,133</u>	<u>922,270</u>	<u>-</u>	<u>4,805,403</u>
Investments - Friends' Group investments				
Cash and money market funds	11,380	-	-	11,380
Mutual funds				
Fixed Income				
iShares Barclays 1-3 year	13,756	-	-	13,756
iShares Barclays Tips	23,251	-	-	23,251
iShares Barclays 3-7 years	13,560	-	-	13,560
iShares Core Total U.S.	22,859	-	-	22,859
Equities				
iShares Russell 1000	60,832	-	-	60,832
Revenue shares Small Cap	32,223	-	-	32,223
iShares Currency Hedged	30,612	-	-	30,612
	<u>208,473</u>	<u>-</u>	<u>-</u>	<u>208,473</u>
Total investments reported at fair value	<u>\$ 4,091,606</u>	<u>\$ 922,270</u>	<u>\$ -</u>	<u>\$ 5,013,876</u>

### 11. Subsequent events

The Foundation assessed events occurring subsequent to June 30, 2019 through October 14, 2019, 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.

See independent auditor's report.