

FAIRFAX LIBRARY FOUNDATION

FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021



Certified Public Accountants

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Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Fairfax Library Foundation

Opinion

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Fairfax Library Foundation** as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

To the Board of Directors
Fairfax Library Foundation

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of **Fairfax Library Foundation's** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about **Fairfax Library Foundation's** ability to continue as a going concern for a reasonable period of time.

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

Kositzka, Wicks and Company

Alexandria, Virginia
October 14, 2022

Fairfax Library Foundation

Statements of Financial Position June 30,

2022

2021

Assets

Current assets

Cash and cash equivalents	\$ 837,246	\$ 825,987
Pledges receivable	3,371	4,897
Prepaid expenses and other assets	14,715	13,474
	<u>855,332</u>	<u>844,358</u>

Property and equipment, net of accumulated depreciation

485 973

Other assets

Investments - endowment funds	5,145,936	5,962,875
Friends' Group investments	313,017	293,010
	<u>5,458,953</u>	<u>6,255,885</u>
Total assets	<u>\$ 6,314,770</u>	<u>\$ 7,101,216</u>

Liabilities and net assets

Current liabilities

Accounts payable and accrued expenses	\$ 35,065	\$ 12,343
Refundable advances	22,500	25,000
	<u>57,565</u>	<u>37,343</u>

Funds held on behalf of Friends' Group

Total liabilities 313,017 293,010
370,582 330,353

Net assets

Without donor restrictions	2,878,935	3,239,663
With donor restrictions	3,065,253	3,531,200
Total net assets	<u>5,944,188</u>	<u>6,770,863</u>
Total liabilities and net assets	<u>\$ 6,314,770</u>	<u>\$ 7,101,216</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, 2022

	Without donor restrictions	With donor restrictions	Total
Support and revenue			
Contributions	\$ 171,026	\$ 66,849	\$ 237,875
In-kind contributions	274,194	10,283	284,477
Special events (net of direct expenses of \$6,585)	14,707	-	14,707
Sales revenue	5,843	-	5,843
Investment loss, net	(303,342)	(356,592)	(659,934)
Net assets released from restrictions	<u>186,487</u>	<u>(186,487)</u>	<u>-</u>
Total support and revenue	348,915	(465,947)	(117,032)
Expenses			
Program services			
Early literature	177,892	-	177,892
Books and materials	226,594	-	226,594
Presentations	71,127	-	71,127
Scholarships	92,380	-	92,380
Changing lives through literature 1,000 books before kindergarten	7,826	-	7,826
	2,512	-	2,512
Total program services	<u>578,331</u>	<u>-</u>	<u>578,331</u>
Supporting services			
Management and general	61,553	-	61,553
Fundraising	69,759	-	69,759
Total supporting services	<u>131,312</u>	<u>-</u>	<u>131,312</u>
Total expenses	<u>709,643</u>	<u>-</u>	<u>709,643</u>
Change in net assets	(360,728)	(465,947)	(826,675)
Net assets, beginning of year	<u>3,239,663</u>	<u>3,531,200</u>	<u>6,770,863</u>
Net assets, end of year	<u>\$ 2,878,935</u>	<u>\$ 3,065,253</u>	<u>\$ 5,944,188</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, 2021

	Without donor restrictions	With donor restrictions	Total
Support and revenue			
Contributions	\$ 211,857	\$ 83,769	\$ 295,626
In-kind contributions	268,544	7,847	276,391
Special events (net of direct expenses of \$8,577)	40,769	-	40,769
Sales revenue	2,996	-	2,996
Investment income, net	597,113	684,405	1,281,518
Net assets released from restrictions	167,828	(167,828)	-
Total support and revenue	1,289,107	608,193	1,897,300
Expenses			
Program services			
Early literature	90,896	-	90,896
Books and materials	185,682	-	185,682
Presentations	73,538	-	73,538
Scholarships	128,877	-	128,877
Changing lives through literature 1,000 books before kindergarten	6,879	-	6,879
	1,142	-	1,142
Total program services	487,014	-	487,014
Supporting services			
Management and general	62,343	-	62,343
Fundraising	71,471	-	71,471
Total supporting services	133,814	-	133,814
Total expenses	620,828	-	620,828
Change in net assets	668,279	608,193	1,276,472
Net assets, beginning of year	2,571,384	2,923,007	5,494,391
Net assets, end of year	\$ 3,239,663	\$ 3,531,200	\$ 6,770,863

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, 2022

	Program services						Supporting services			Total
	Early literature	Books and materials	Presentations	Scholarships	Changing lives through literature	1,000 books before kindergarten	Total program services	Management and general	Fundraising	
Expenses										
Program benefits awarded	\$ 82,261	\$ 112,542	\$ 28,641	\$ 46,532	\$ 3,943	\$ 2	\$ 273,921	\$ 50	\$ 123	\$ 274,094
Salaries and benefits	20,306	26,211	8,157	10,541	893	287	66,395	8,225	7,628	82,248
Graphics and printing	9,286	3,561	3,798	1,432	121	1,302	19,500	1,552	28	21,080
Fees and other charges	8	10	3	4	-	-	25	561	2,486	3,072
Accounting service	-	-	-	-	-	-	-	16,400	-	16,400
Office supplies and expense	874	168	4,063	49	4	1	5,159	403	-	5,562
Depreciation	120	156	48	63	5	2	394	49	45	488
Computer maintenance and supplies	1,701	2,195	863	882	75	25	5,741	776	1,520	8,037
Cost of direct benefit to donors	-	-	-	-	-	-	-	-	6,585	6,585
Meetings and recruitment	-	-	79	-	-	-	79	259	-	338
Dues and membership	-	-	-	-	-	-	-	670	525	1,195
Postage	6	7	34	3	-	-	50	1,436	-	1,486
Insurance	1,096	1,415	440	569	48	15	3,583	339	-	3,922
Licenses and permits	4	5	2	2	-	-	13	464	85	562
Telephone	-	-	-	-	-	-	-	1,625	-	1,625
Contracted staff	3,050	3,936	1,225	1,583	134	43	9,971	1,429	2,847	14,247
Other	871	1,124	350	452	38	12	2,847	80	-	2,927
	<u>119,583</u>	<u>151,330</u>	<u>47,703</u>	<u>62,112</u>	<u>5,261</u>	<u>1,689</u>	<u>387,678</u>	<u>34,318</u>	<u>21,872</u>	<u>443,868</u>
In-kind salaries and benefits	54,652	70,544	21,955	28,370	2,404	771	178,696	25,528	51,056	255,280
In-kind office space	3,657	4,720	1,469	1,898	161	52	11,957	1,707	3,416	17,080
	<u>58,309</u>	<u>75,264</u>	<u>23,424</u>	<u>30,268</u>	<u>2,565</u>	<u>823</u>	<u>190,653</u>	<u>27,235</u>	<u>54,472</u>	<u>272,360</u>
Total expenses by function	<u>177,892</u>	<u>226,594</u>	<u>71,127</u>	<u>92,380</u>	<u>7,826</u>	<u>2,512</u>	<u>578,331</u>	<u>61,553</u>	<u>76,344</u>	<u>716,228</u>
Less expenses included with revenues on the statement of activities										
Cost of direct benefit to donors	-	-	-	-	-	-	-	-	(6,585)	(6,585)
Total expenses included in the expense section on the statement of activities	<u>\$ 177,892</u>	<u>\$ 226,594</u>	<u>\$ 71,127</u>	<u>\$ 92,380</u>	<u>\$ 7,826</u>	<u>\$ 2,512</u>	<u>\$ 578,331</u>	<u>\$ 61,553</u>	<u>\$ 69,759</u>	<u>\$ 709,643</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, 2021**

	Program services						Supporting services			
	Early literature	Books and materials	Presentations	Scholarships	Changing lives through literature	1,000 books before kindergarten	Total program services	Management and general	Fundraising	Total
Expenses										
Program benefits awarded	\$ 22,219	\$ 80,140	\$ 20,816	\$ 53,131	\$ 2,840	\$ -	\$ 179,146	\$ -	\$ 1,543	\$ 180,689
Salaries and benefits	11,696	22,722	9,397	16,578	884	149	61,426	7,679	7,679	76,784
Graphics and printing	7,456	2,016	3,988	207	11	469	14,147	4,573	-	18,720
Fees and other charges	6	11	4	8	-	-	29	560	2,221	2,810
Accounting service	-	-	-	-	-	-	-	15,900	-	15,900
Office supplies and expense	515	2	5,917	-	-	-	6,434	28	-	6,462
Depreciation	75	144	59	106	5	1	390	49	49	488
Computer maintenance and supplies	3,116	6,054	2,504	4,419	236	40	16,369	2,059	3,140	21,568
Cost of direct benefit to donors	-	-	-	-	-	-	-	-	8,577	8,577
Meetings and recruitment	-	-	-	-	-	-	-	60	-	60
Dues and membership	119	-	-	-	-	-	119	465	525	1,109
Donor cultivation	-	-	-	-	-	-	-	58	-	58
Training	-	-	-	-	-	-	-	-	81	81
Postage	45	88	36	64	3	1	237	765	-	1,002
Insurance	657	1,276	528	931	50	8	3,450	351	-	3,801
Licenses and permits	-	-	-	-	-	-	-	425	-	425
Telephone	-	-	-	-	-	-	-	1,105	-	1,105
Contracted staff	8,999	3,300	1,365	2,409	128	21	16,222	1,272	2,524	20,018
Other	202	394	163	287	15	2	1,063	141	-	1,204
	<u>55,105</u>	<u>116,147</u>	<u>44,777</u>	<u>78,140</u>	<u>4,172</u>	<u>691</u>	<u>299,032</u>	<u>35,490</u>	<u>26,339</u>	<u>360,861</u>
In-kind salaries and benefits	33,515	65,112	26,932	47,509	2,535	422	176,025	25,146	50,293	251,464
In-kind office space	2,276	4,423	1,829	3,228	172	29	11,957	1,707	3,416	17,080
	<u>35,791</u>	<u>69,535</u>	<u>28,761</u>	<u>50,737</u>	<u>2,707</u>	<u>451</u>	<u>187,982</u>	<u>26,853</u>	<u>53,709</u>	<u>268,544</u>
Total expenses by function	<u>90,896</u>	<u>185,682</u>	<u>73,538</u>	<u>128,877</u>	<u>6,879</u>	<u>1,142</u>	<u>487,014</u>	<u>62,343</u>	<u>80,048</u>	<u>629,405</u>
Less expenses included with revenues on the statement of activities										
Cost of direct benefit to donors	-	-	-	-	-	-	-	-	(8,577)	(8,577)
Total expenses included in the expense section on the statement of activities	<u>\$ 90,896</u>	<u>\$ 185,682</u>	<u>\$ 73,538</u>	<u>\$ 128,877</u>	<u>\$ 6,879</u>	<u>\$ 1,142</u>	<u>\$ 487,014</u>	<u>\$ 62,343</u>	<u>\$ 71,471</u>	<u>\$ 620,828</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,

2022

2021

Cash flows from operating activities

Change in net assets	\$ (826,675)	\$ 1,276,472
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	488	488
Unrealized and realized loss (gain) on investments	746,677	(1,252,900)
Decrease (increase) in operating assets		
Pledges receivable	1,526	(4,677)
Prepaid expenses and other assets	(1,241)	24,848
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	22,722	3,183
Refundable advances	(2,500)	(29,000)
Net cash provided by (used in) operating activities	<u>(59,003)</u>	<u>18,414</u>

Cash flows from investing activities

Proceeds from sale of investments	6,827,483	619,932
Purchase of investments	<u>(6,757,221)</u>	<u>(492,404)</u>
Net cash provided by investing activities	<u>70,262</u>	<u>127,528</u>

Net change in cash and cash equivalents

	11,259	145,942
Cash and cash equivalents, beginning of year	825,987	680,045
Cash and cash equivalents, end of year	<u>\$ 837,246</u>	<u>\$ 825,987</u>

Supplemental disclosure of cash flow information

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

Noncash investing activities from Friends' Group Investments

Purchase of investments	\$ 60,642	\$ -
Unrealized and realized gain (loss) on investments	(45,458)	67,591
Dividend and interest income on investments	6,750	3,526
Investment management fees	(1,927)	(1,531)
	<u>\$ 20,007</u>	<u>\$ 69,586</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, 2022 and 2021

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.

Support and 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.

See independent auditor's report.

Fairfax Library Foundation

Notes to Financial Statements June 30, 2022 and 2021

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.

Sources of revenue from contracts with customers include an exchange element of tickets purchased for the Foundation's annual special event, which is recognized at the point in time when the special event occurs. For the years ended June 30, 2022 and 2021, the annual event was replaced with smaller events due to the ongoing pandemic. The total exchange portion of tickets was \$1,960 for the year ended June 30, 2021. The events were made free for the year ended June 30, 2022, and thus no tickets were sold. As of June 30, 2022 and 2021, there were no performance obligations remaining relating to ticket sales. Additionally, the Foundation receives revenue from merchandise sales, such as books, bags, earbuds, and flash drives, which is recognized at the point in time when the goods are provided. These amounts are reported as sales revenue on the statements of activities. The Foundation holds no material inventory. All remaining sources of support and revenue are contribution transactions.

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, 2022 and 2021 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 both years ended June 30, 2022 and 2021 was \$488.

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.

Fairfax Library Foundation

Notes to Financial Statements June 30, 2022 and 2021

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.

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 refundable advances. 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.

Refundable advances

Refundable advances as of June 30, 2022 consisted of conditional contributions for scholarships over the next three years, and contributions for special events not yet held. Refundable advances as of June 30, 2021 consisted of conditional contributions for scholarships over the next four years.

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 underlying salaries and benefits are recorded at the amount of expenses actually incurred by Fairfax County Public Library. The Foundation receives rent-free use of office space from Fairfax County, Virginia. For the years ended June 30, 2022 and 2021, 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. Donated new books are recorded at the purchase price paid by the donor. Other in-kind contributions received are reflected at estimated fair value. In-kind contributions are detailed at Note 11 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.

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, graphics and printing, fees and other charges, office supplies, computer maintenance and supplies, depreciation, postage, insurance, licenses and permits, contracted staff, other, 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.

Fairfax Library Foundation

Notes to Financial Statements June 30, 2022 and 2021

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.

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. Income from certain activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. The Foundation had an insignificant amount of unrelated business income for the years ended June 30, 2022 and 2021; therefore, no provision has been made 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, 2019 through June 30, 2022.

Recently adopted accounting pronouncements

The FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires not-for-profits to present contributed nonfinancial assets as a separate line item in the statement of activities and provide additional disclosures about contributions of nonfinancial assets. Contributed nonfinancial assets, commonly referred to as gifts-in-kind, include fixed assets (such as land, buildings and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services and unconditional promises of those assets. The ASU is effective for annual periods beginning after June 15, 2021 with a retroactive application. The Foundation adopted the standard on July 1, 2021 with no impact on net assets. Additional disclosures have been provided as appropriate under the new standard.

Upcoming accounting pronouncements

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, 2021. Fairfax Library Foundation adopted the standard on its effective date, which for Fairfax Library Foundation was July 1, 2022.

3. Cash and cash equivalents

Cash and cash equivalents as of June 30, 2022 and 2021, consisted of the following:

	2022	2021
Checking	\$ 373,642	\$ 362,694
Money market funds	463,604	463,293
	<u>\$ 837,246</u>	<u>\$ 825,987</u>
Amount covered by Federal Deposit Insurance Corporation (FDIC)	<u>\$ 718,097</u>	<u>\$ 621,606</u>

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Fairfax Library Foundation

Notes to Financial Statements June 30, 2022 and 2021

4. Investments

Investments as of June 30, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Cash and money market funds	\$ 355,991	\$ 96,936
Mutual funds	4,789,945	4,686,892
Market-linked investments	-	1,179,047
	<u>\$ 5,145,936</u>	<u>\$ 5,962,875</u>

Investment income (loss) for the years ended June 30, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Realized and unrealized gains (losses)	\$ (746,677)	\$ 1,252,900
Interest and dividend income	121,565	57,765
Investment fees	(34,822)	(29,147)
	<u>\$ (659,934)</u>	<u>\$ 1,281,518</u>

5. Property and equipment

Property and equipment for the years ended June 30, 2022 and 2021 consists of the following:

	<u>2022</u>	<u>2021</u>	<u>Useful life</u>
Property and equipment, cost	\$ 25,499	\$ 25,499	3 - 5 years
Accumulated depreciation	(25,014)	(24,526)	
	<u>\$ 485</u>	<u>\$ 973</u>	

6. Net assets with donor restrictions

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 7. At June 30, 2022 and 2021, the donor-restricted amount was \$159,054 and \$197,744, 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.

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.

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Fairfax Library Foundation

Notes to Financial Statements June 30, 2022 and 2021

A summary of activity in net assets with donor restrictions as of June 30, 2022 was as follows:

	Beginning Balance	Additions	Releases	Ending Balance
Subject to expenditure for specified purpose				
FCPL branches and general library support	\$ 31,343	\$ 10,708	\$ (1,934)	\$ 40,117
Scholarships	-	15,025	(15,025)	-
American Initiative	23,400	1,510	-	24,910
1,000 books before kindergarten	8,528	-	(1,263)	7,265
Changing lives through literature	4,752	300	(3,937)	1,115
Dollywood	-	16,962	(16,962)	-
Books and materials	-	23,817	(23,817)	-
Presentations	-	500	(500)	-
Early literature	-	8,310	(8,310)	-
	<u>68,023</u>	<u>77,132</u>	<u>(71,748)</u>	<u>73,407</u>
Subject to expenditure for specified purpose, held in board-designated endowment funds				
Purchase of recorded books (Macleod fund)	197,744	-	(38,690)	159,054
General fund - George Mason friends scholarship	30,000	-	(5,000)	25,000
FCPL branches	63,551	-	-	63,551
	<u>291,295</u>	<u>-</u>	<u>(43,690)</u>	<u>247,605</u>
Endowment earnings subject to spending policy and appropriation				
General fund	591,931	(231,975)	(70,428)	289,528
Children's Reading Program fund	631,309	(124,617)	(621)	506,071
	<u>1,223,240</u>	<u>(356,592)</u>	<u>(71,049)</u>	<u>795,599</u>
Donor-restricted endowments subject to a perpetual restriction				
General Endowment	1,448,642	-	-	1,448,642
Children's Reading Program fund	500,000	-	-	500,000
	<u>1,948,642</u>	<u>-</u>	<u>-</u>	<u>1,948,642</u>
Total net assets with donor restrictions	<u>\$ 3,531,200</u>	<u>\$ (279,460)</u>	<u>\$ (186,487)</u>	<u>\$ 3,065,253</u>

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Fairfax Library Foundation

Notes to Financial Statements June 30, 2022 and 2021

A summary of activity in net assets with donor restrictions as of June 30, 2021 was as follows:

	Beginning Balance	Additions	Releases	Ending Balance
Subject to expenditure for specified purpose				
FCPL branches and general library support	\$ 13,781	\$ 28,802	\$ (11,240)	\$ 31,343
Scholarships	-	13,000	(13,000)	-
American Initiative	21,400	2,000	-	23,400
1,000 books before kindergarten	3,030	5,965	(467)	8,528
Changing lives through literature	3,382	4,210	(2,840)	4,752
Dollywood	-	12,194	(12,194)	-
Books and materials	-	17,980	(17,980)	-
Presentations	-	2,500	(2,500)	-
Early literature	-	4,965	(4,965)	-
	<u>41,593</u>	<u>91,616</u>	<u>(65,186)</u>	<u>68,023</u>
Subject to expenditure for specified purpose, held in board-designated endowment funds				
Purchase of recorded books (Macleod fund)	230,872	-	(33,128)	197,744
General fund - George Mason friends scholarship	35,000	-	(5,000)	30,000
FCPL branches	63,551	-	-	63,551
	<u>329,423</u>	<u>-</u>	<u>(38,128)</u>	<u>291,295</u>
Endowment earnings subject to spending policy and appropriation				
General fund	204,351	451,764	(64,184)	591,931
Children's Reading Program fund	398,998	232,641	(330)	631,309
	<u>603,349</u>	<u>684,405</u>	<u>(64,514)</u>	<u>1,223,240</u>
Donor-restricted endowments subject to a perpetual restriction				
General Endowment	1,448,642	-	-	1,448,642
Children's Reading Program fund	500,000	-	-	500,000
	<u>1,948,642</u>	<u>-</u>	<u>-</u>	<u>1,948,642</u>
Total net assets with donor restrictions	<u>\$ 2,923,007</u>	<u>\$ 776,021</u>	<u>\$ (167,828)</u>	<u>\$ 3,531,200</u>

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Fairfax Library Foundation

Notes to Financial Statements June 30, 2022 and 2021

7. 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.

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.

Fairfax Library Foundation

Notes to Financial Statements June 30, 2022 and 2021

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.

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, 2022 and 2021.

Endowment net asset composition by type of fund

The endowment net assets consisted of the following as of June 30, 2022:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds			
General fund	\$ -	\$ 1,738,170	\$ 1,738,170
General fund - George Mason friends scholarship	-	25,000	25,000
Children's Reading Program fund	-	1,006,071	1,006,071
FCPL Branches	<u>276,327</u>	<u>63,551</u>	<u>339,878</u>
Total donor-restricted endowment funds	<u>276,327</u>	<u>2,832,792</u>	<u>3,109,119</u>
Board-designated endowment funds			
Macleod fund	934,521	159,054	1,093,575
General fund	<u>943,242</u>	-	<u>943,242</u>
Total board-designated endowment funds	<u>1,877,763</u>	<u>159,054</u>	<u>2,036,817</u>
Total endowment funds	<u>\$ 2,154,090</u>	<u>\$ 2,991,846</u>	<u>\$ 5,145,936</u>

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Notes to Financial Statements June 30, 2022 and 2021

The endowment net assets consisted of the following as of June 30, 2021:

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds			
General fund	\$ -	\$ 2,040,573	\$ 2,040,573
General fund - George Mason friends scholarship	-	30,000	30,000
Children's Reading Program fund	-	1,131,309	1,131,309
FCPL Branches	320,573	63,551	384,124
Total donor-restricted endowment funds	<u>320,573</u>	<u>3,265,433</u>	<u>3,586,006</u>
Board-designated endowment funds			
Macleod fund	1,074,563	197,744	1,272,307
General fund	1,104,562	-	1,104,562
Total board-designated endowment funds	<u>2,179,125</u>	<u>197,744</u>	<u>2,376,869</u>
Total endowment funds	<u>\$ 2,499,698</u>	<u>\$ 3,463,177</u>	<u>\$ 5,962,875</u>

Changes in endowment net assets

The endowment net activity consisted of the following:

	Without donor restrictions	With donor restrictions	Total
Endowment funds as of June 30, 2020	\$ 1,956,089	\$ 2,881,414	\$ 4,837,503
Investment return, net	596,516	684,405	1,280,921
Contributions	-	-	-
Appropriation of endowments pursuant to a spending-rate policy	(52,907)	(102,642)	(155,549)
Endowment funds as of June 30, 2021	<u>\$ 2,499,698</u>	<u>\$ 3,463,177</u>	<u>\$ 5,962,875</u>
Investment return, net	(303,673)	(356,591)	(660,264)
Contributions	-	-	-
Appropriation of endowments pursuant to a spending-rate policy	(41,935)	(114,740)	(156,675)
Endowment funds as of June 30, 2022	<u>\$ 2,154,090</u>	<u>\$ 2,991,846</u>	<u>\$ 5,145,936</u>

8. 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.

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Fairfax Library Foundation

Notes to Financial Statements June 30, 2022 and 2021

The following table reflects the Foundation's financial assets as of June 30, 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:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 837,246	\$ 825,987
Pledges receivable	3,371	4,897
Endowment spending-rate distributions and appropriations	164,777	164,965
Total financial assets available within one year	<u>1,005,394</u>	<u>995,849</u>
Less amounts unavailable for general expenditure within one year due to:		
Restricted by donors with purpose restrictions	<u>(73,407)</u>	<u>(68,023)</u>
Total financial assets available to meet general expenditures within one year	<u>\$ 931,987</u>	<u>\$ 927,826</u>

The Foundation's board-designated endowment is subject to an annual spending rate as described in Note 7. 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.

9. 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.

Assets measured at fair value on a recurring basis are summarized below as of June 30, 2022:

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Notes to Financial Statements June 30, 2022 and 2021

	Level 1	Level 2	Level 3	Total
Investments - endowment funds				
Cash and money market funds	\$ 355,991	\$ -	\$ -	\$ 355,991
Mutual funds				
Equities				
Calamos Market Neutral	550,747	-	-	550,747
Goldman Sachs ETF Trust	244,304	-	-	244,304
GS GQG Partners	291,348	-	-	291,348
iShares Core S&P Mid-Cap	192,748	-	-	192,748
iShares Core S&P Small	146,008	-	-	146,008
iShares S&P Midcap 400	132,877	-	-	132,877
iShares Core S&P 500 ETF	296,495	-	-	296,495
iShares S&P 500	449,004	-	-	449,004
iShares S&P Smallcap 600	91,944	-	-	91,944
JP Morgan Exchange ETF	193,848	-	-	193,848
MFS International Divers	394,179	-	-	394,179
Nationwide Investor	194,418	-	-	194,418
PGIM Total Return	188,570	-	-	188,570
PIMCO Income Fund Class I2	226,230	-	-	226,230
WisdomTree US Smallcap	206,853	-	-	206,853
WisdomTree US Mid-cap DIV	269,352	-	-	269,352
WisdomTree US L/C	721,020	-	-	721,020
	<u>5,145,936</u>	<u>-</u>	<u>-</u>	<u>5,145,936</u>
Investments - Friends' Group investments				
Cash and money market funds	23,928	-	-	23,928
Mutual funds				
Equities				
Calamos Market Neutral	34,197	-	-	34,197
Goldman Sachs ETF Trust	10,417	-	-	10,417
GS GQG Partners	17,262	-	-	17,262
iShares Core S&P Mid-Cap	17,646	-	-	17,646
iShares Core S&P Small	13,677	-	-	13,677
iShares S&P Midcap 400	5,736	-	-	5,736
iShares Core S&P 500 ETF	45,498	-	-	45,498
iShares S&P 500	19,312	-	-	19,312
iShares S&P Smallcap 600	3,897	-	-	3,897
JP Morgan Exchange ETF	11,421	-	-	11,421
MFS International Divers	23,560	-	-	23,560
Nationwide Investor	11,703	-	-	11,703
PGIM Total Return	11,184	-	-	11,184
PIMCO Income Fund Class I2	13,527	-	-	13,527
WisdomTree US Smallcap	8,607	-	-	8,607
WisdomTree US Mid-cap DIV	11,304	-	-	11,304
WisdomTree US L/C	30,141	-	-	30,141
	<u>313,017</u>	<u>-</u>	<u>-</u>	<u>313,017</u>
Total investments reported at fair value	<u>\$ 5,458,953</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,458,953</u>

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Fairfax Library Foundation

Notes to Financial Statements June 30, 2022 and 2021

Assets measured at fair value on a recurring basis are summarized below as of June 30, 2021:

	Level 1	Level 2	Level 3	Total
Investments - endowment funds				
Cash and money market funds	\$ 96,936	\$ -	\$ -	\$ 96,936
Mutual funds				
Fixed Income				
iShares Barclays 1-3 year	341,790	-	-	341,790
iShares Barclays Tips	619,569	-	-	619,569
iShares Barclays 3-7 years	358,710	-	-	358,710
iShares Core Total U.S.	587,953	-	-	587,953
Equities				
iShares Russell 1000	977,695	-	-	977,695
Revenue shares Small Cap	1,235,781	-	-	1,235,781
iShares Currency Hedged	565,394	-	-	565,394
Market-linked investments				
SP500 CLIRN Issuer BNS	-	609,883	-	609,883
DJIA LIRN Issuer Barn	-	312,130	-	312,130
International Bkt LIRN Issuer HSBC	-	257,034	-	257,034
	<u>4,783,828</u>	<u>1,179,047</u>	<u>-</u>	<u>5,962,875</u>
Investments - Friends' Group investments				
Cash and money market funds	18,654	-	-	18,654
Mutual funds				
Fixed Income				
iShares Barclays 1-3 year	16,887	-	-	16,887
iShares Barclays Tips	29,954	-	-	29,954
iShares Barclays 3-7 years	17,230	-	-	17,230
iShares Core Total U.S.	29,409	-	-	29,409
Equities				
iShares Russell 1000	89,850	-	-	89,850
Revenue shares Small Cap	47,345	-	-	47,345
iShares Currency Hedged	43,681	-	-	43,681
	<u>293,010</u>	<u>-</u>	<u>-</u>	<u>293,010</u>
Total investments reported at fair value	<u>\$ 5,076,838</u>	<u>\$ 1,179,047</u>	<u>\$ -</u>	<u>\$ 6,255,885</u>

10. Related party transactions

The Foundation paid a board member \$14,247 and \$12,147 during the years ended June 30, 2022 and 2021, respectively, for services performed as a contractor.

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Fairfax Library Foundation

Notes to Financial Statements June 30, 2022 and 2021

11. In-kind contributions

The Foundation recognized the following in-kind contributions for the year ended June 30, 2022:

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and benefits	\$ 178,696	\$ 25,528	\$ 51,056	\$ 255,280
Office space	11,957	1,707	3,416	17,080
Books	10,201	-	-	10,201
Other	1,916	-	-	1,916
	<u>\$ 202,770</u>	<u>\$ 27,235</u>	<u>\$ 54,472</u>	<u>\$ 284,477</u>

The Foundation recognized the following in-kind contributions for the year ended June 30, 2021:

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and benefits	\$ 176,025	\$ 25,146	\$ 50,293	\$ 251,464
Office space	11,957	1,707	3,416	17,080
Books	7,847	-	-	7,847
	<u>\$ 195,829</u>	<u>\$ 26,853</u>	<u>\$ 53,709</u>	<u>\$ 276,391</u>

12. Subsequent events

The Foundation assessed events occurring subsequent to June 30, 2022 through October 14, 2022, 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.