

Library
Foundation
of LOS ANGELES

Providing Support for the Los Angeles Public Library

Financial Statements
June 30, 2009 and 2008

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Library Foundation of Los Angeles

We have audited the accompanying statements of financial position of the Library Foundation of Los Angeles (the Foundation) as of June 30, 2009 and 2008, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Library Foundation of Los Angeles as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of expenses on page 21 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Windes & McClaughry". The signature is written in a cursive, flowing style.

Long Beach, California
October 30, 2009

LIBRARY FOUNDATION OF LOS ANGELES
STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2009	2008
Cash and cash equivalents	\$ 4,836,847	\$ 4,731,950
Investments	16,043,308	20,143,828
Pledges receivable	2,011,757	2,948,782
Library store inventory	78,866	88,898
Furniture, equipment, and improvements, net	80,376	113,848
Interests in charitable remainder trusts	330,881	408,961
Other receivables	8,485	3,980
TOTAL ASSETS	\$ 23,390,520	\$ 28,440,247

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 138,808	\$ 104,546
Other liabilities	62,237	48,421
	201,045	152,967

COMMITMENTS (Notes 8 and 9)

NET ASSETS		
Unrestricted		
Undesignated	639,415	1,321,390
Library store	123,715	122,596
	763,130	1,443,986
Board-directed endowment	8,369,628	11,484,959
	9,132,758	12,928,945
Temporarily restricted - These funds are restricted based upon specific donor designations and, as such, are obligations of the organization	4,712,054	6,620,542
Permanently restricted	9,344,663	8,737,793
	23,189,475	28,287,280
TOTAL LIABILITIES AND NET ASSETS	\$ 23,390,520	\$ 28,440,247

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

LIBRARY FOUNDATION OF LOS ANGELES

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009**

	Unrestricted		Temporarily	Permanently	Total
	Undesignated	Board Directed	Restricted	Restricted	
OPERATING ACTIVITY:					
SUPPORT AND REVENUE					
Contributions	\$ 885,266		\$ 2,161,815	\$ 606,870	\$ 3,653,951
Fund-raising events – net of direct expenses of \$250,600	411,882		14,807		426,689
Store revenues, net of discounts	385,409				385,409
	1,682,557		2,176,622	606,870	4,466,049
NET ASSETS RELEASED FROM RESTRICTIONS	2,690,495		(2,690,495)		
TOTAL SUPPORT AND REVENUE	4,373,052		(513,873)	606,870	4,466,049
EXPENSES					
Program Services:					
Adopt a branch and computer aides	408,504				408,504
Adult literacy	261,502				261,502
Technology	543,689				543,689
Cultural programs	579,823				579,823
Exhibitions	301,789				301,789
Children’s programs	359,630				359,630
Library collections and awareness	234,185				234,185
Teen programs	411,478				411,478
Library Store	384,290				384,290
Total Program Services	3,484,890				3,484,890
Supporting Services:					
General and administrative	681,471				681,471
Fund-raising	693,436				693,436
	1,374,907				1,374,907
TOTAL EXPENSES	4,859,797				4,859,797
CHANGE IN NET ASSETS FROM OPERATIONS	(486,745)		(513,873)	606,870	(393,748)
NONOPERATING ACTIVITY:					
Interest and dividends	98,434	\$ 205,282	135,988		439,704
Net realized and unrealized loss on investments	(547,545)	(3,065,613)	(1,452,523)		(5,065,681)
Change in value of charitable remainder trusts			(78,080)		(78,080)
	(449,111)	(2,860,331)	(1,394,615)		(4,704,057)
TRANSFERS	255,000	(255,000)			
CHANGE IN NET ASSETS	(680,856)	(3,115,331)	(1,908,488)	606,870	(5,097,805)
BEGINNING NET ASSETS	1,443,986	11,484,959	6,620,542	8,737,793	28,287,280
ENDING NET ASSETS	\$ 763,130	\$ 8,369,628	\$ 4,712,054	\$ 9,344,663	\$ 23,189,475

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

LIBRARY FOUNDATION OF LOS ANGELES

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

	Unrestricted				
	Undesignated	Board Directed	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITY: SUPPORT AND REVENUE					
Contributions	\$ 1,437,179		\$ 3,203,551	\$ 155,988	\$ 4,796,718
Fund-raising events – net of direct expenses of \$467,007	437,179		630,445		1,067,624
Store revenues, net of discounts	470,188				470,188
	2,344,546		3,833,996	155,988	6,334,530
NET ASSETS RELEASED FROM RESTRICTIONS	4,088,524		(4,088,524)		
TOTAL SUPPORT AND REVENUE	6,433,070		(254,528)	155,988	6,334,530
EXPENSES					
Program Services:					
Adopt a branch and computer aides	490,825				490,825
Adult literacy	451,660				451,660
Technology	900,405				900,405
Cultural programs	551,042				551,042
Exhibitions	495,440				495,440
Children’s programs	674,672				674,672
Library awareness, improvements and collections	629,089				629,089
Teen programs	533,836				533,836
Library Store	466,815				466,815
Total Program Services	5,193,784				5,193,784
Supporting Services:					
General and administrative	849,376				849,376
Fund-raising	790,554				790,554
	1,639,930				1,639,930
TOTAL EXPENSES	6,833,714				6,833,714
CHANGE IN NET ASSETS FROM OPERATIONS	(400,644)		(254,528)	155,988	(499,184)
NONOPERATING ACTIVITY:					
Interest and dividends	42,109	\$ 356,531	200,134		598,774
Net realized and unrealized loss on investments	(52,678)	(1,593,951)	(986,472)		(2,633,101)
Change in value of charitable remainder trusts			(12,007)		(12,007)
	(10,569)	(1,237,420)	(798,345)		(2,046,334)
TRANSFERS	290,000	(290,000)			
CHANGE IN NET ASSETS	(121,213)	(1,527,420)	(1,052,873)	155,988	(2,545,518)
BEGINNING NET ASSETS	1,565,199	13,012,379	7,673,415	8,581,805	30,832,798
ENDING NET ASSETS	<u>\$ 1,443,986</u>	<u>\$ 11,484,959</u>	<u>\$ 6,620,542</u>	<u>\$ 8,737,793</u>	<u>\$ 28,287,280</u>

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

LIBRARY FOUNDATION OF LOS ANGELES

STATEMENTS OF CASH FLOWS

	For the Year Ended	
	June 30,	
	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	(\$ 5,097,805)	(\$ 2,545,518)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	33,472	26,712
Disposal of equipment		(2,896)
Net realized and unrealized loss on investments	5,065,681	2,633,101
Contributions for long-term investments	(1,025,520)	(1,036,480)
Change in value of charitable remainder trusts	78,080	12,007
Changes in operating assets and liabilities:		
Pledges receivable	937,025	1,002,940
Library store inventory	10,032	9,351
Other receivables	(4,505)	1,185
Accounts payable	34,262	54,770
Other liabilities	<u>13,816</u>	<u>22,270</u>
Net Cash Provided By Operating Activities	<u>44,538</u>	<u>177,442</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale or maturity of investments	8,564,900	6,148,664
Purchases of investments	(9,530,061)	(7,713,104)
Purchases of equipment		(100,777)
Net Cash Used In Investing Activities	<u>(965,161)</u>	<u>(1,665,217)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for long-term investments	<u>1,025,520</u>	<u>1,036,480</u>
Net Cash Provided By Financing Activities	<u>1,025,520</u>	<u>1,036,480</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	104,897	(451,295)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	<u>4,731,950</u>	<u>5,183,245</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u>\$ 4,836,847</u>	<u>\$ 4,731,950</u>

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

LIBRARY FOUNDATION OF LOS ANGELES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 1 – Summary of Significant Accounting Policies

Organization

The Library Foundation of Los Angeles (the Foundation) was founded in 1992 as a California public benefit corporation to encourage private support through memberships, corporate sponsorships, gifts, trusts, and bequests for the benefit of the Los Angeles Public Library (the Library). The Foundation seeks to provide a continuous and dependable source of funding for long- and short-term projects.

Method of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Financial Statement Presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) based upon the existence and/or nature of donor-imposed restrictions.

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions. As reflected in the accompanying statements of financial position, the Foundation’s Board of Directors has designated a portion of the unrestricted net assets of the Foundation for long-term investment purposes, referred to as the Board-Directed Endowment Fund.

Temporarily Restricted Net Assets – Funds restricted based upon specific donor designations and, as such, are obligations the Foundation must fulfill. They include gifts for which donor-imposed restrictions have not been met and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted. These amounts are not available for unrestricted purposes.

Permanently Restricted Net Assets – Includes gifts and pledges which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. Such income generally includes interest, and realized and unrealized earnings from the invested corpus.

LIBRARY FOUNDATION OF LOS ANGELES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Upon expiration of the restriction, the contributions are reclassified to unrestricted net assets. Unconditional pledges are recognized as revenue when a written pledge is made.

Recognition of Donor Restrictions

All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Certain significant items in the financial statements subject to such use of estimates include the accounting for pledges receivable and contributions receivable from charitable remainder trusts.

Cash and Cash Equivalents – Concentrations of Credit Risk

The Foundation considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

At June 30, 2009 and throughout the year, the Foundation has maintained cash in its financial institutions in excess of federally insured limits.

LIBRARY FOUNDATION OF LOS ANGELES

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Investments and Market Risk

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position. Realized gains and losses are computed as the difference between historical cost and sales proceeds. Unrealized gains and losses are the change in the spread between historical cost and fair value during the year. Unrealized gains and losses are included in the change in net assets.

Investments in marketable securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the rates of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Library Store Inventory

The Library Store (the Store) sells gifts and library related items to promote awareness of the Library. Inventory is valued using the average cost, which approximates the first-in, first-out method.

Furniture, Equipment, and Improvements

Furniture, equipment, and improvements are stated at cost, with the exception of donated equipment, which is recorded at fair market value on the date received. Depreciation and amortization have been provided using the straight-line method over the assets' estimated useful life of five years. Fixed assets purchased on behalf of the Library are recorded as expenses.

Functional Allocation of Expenses

The costs of providing various programs and other activities of the Foundation have been summarized on a functional basis in the statements of activities. Therefore, certain costs have been allocated among the programs and services benefited based on the judgment of management. The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly.

LIBRARY FOUNDATION OF LOS ANGELES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Income Taxes

The Foundation is exempt from federal income taxes and California franchise taxes under Section 501(c)(3) of the Internal Revenue Code and corresponding California Revenue and Taxation Code sections.

Board-Directed Endowment

The board-directed endowment is composed of funds which are internally designated and used at the discretion of the governing board.

Donated Goods and Services

Donated goods are recorded at their fair value when an unconditional promise to give has been made or when goods have been received. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Included in contribution revenue is \$111,478 and \$592,978 of donated goods and professional services for the years ended June 30, 2009 and 2008, respectively. Included in these amounts are legal services from related parties. Such in-kind support is offset by like amounts included in program and administrative expenses. In 2008, the value for donated services included \$275,800 for design of a marketing campaign, and \$193,000 for preparation of an exhibition.

Additionally, the Foundation receives a significant amount of skilled, contributed time, and donated promotional broadcast advertisements from time-to-time, which does not meet either of the recognition criteria described above. The Foundation has not recorded a value for these services in the financial statements. However, management has estimated the advertising service value to approximate \$86,000 and \$79,000 for the years ended June 30, 2009 and 2008, respectively.

LIBRARY FOUNDATION OF LOS ANGELES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

On July 1, 2008, the Foundation adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements*, (SFAS 157) for fair value measurements of financial assets and financial liabilities as well as nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 also establishes a framework for measuring fair value and expands disclosures about fair value measurements (see Note 10).

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through November 2, 2009, the date the financial statements were issued.

Recent Accounting Pronouncements

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), addresses the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return. FIN 48 requires companies to recognize the effect of income tax positions only if those positions are more likely than not of being sustained.

On December 30, 2008, FASB Staff Position FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, deferred the effective date of FIN 48 for certain nonpublic enterprises, including nonprofit corporations, for annual financial statements for periods beginning on or after December 15, 2008. The deferral is to provide the FASB time to develop guidance on the application of FIN 48 for these entities. As a result, the Foundation has deferred the adoption of FIN 48. Management does not anticipate the impact of FIN 48 on the Foundation's results of operations will be significant.

Reclassifications

Certain amounts in the 2008 financial statements have been reclassified to conform with current year presentation.

LIBRARY FOUNDATION OF LOS ANGELES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 2 – Investments

Investments consist of the following:

	<u>Fair Value</u>	<u>Cost</u>
As of June 30, 2009:		
Equity funds	\$ 10,808,655	\$ 14,717,820
Fixed income funds	4,729,856	4,729,856
Corporate bonds	<u>504,797</u>	<u>507,757</u>
	<u>\$ 16,043,308</u>	<u>\$ 19,955,433</u>
As of June 30, 2008:		
Equity funds	\$ 13,657,428	\$ 14,227,443
Fixed income funds	5,734,200	6,210,734
Corporate bonds	<u>752,200</u>	<u>752,200</u>
	<u>\$ 20,143,828</u>	<u>\$ 21,190,377</u>

Investment return consists of the following:

	<u>For the Year Ended</u> <u>June 30,</u>	
	<u>2009</u>	<u>2008</u>
Interest and dividends	\$ 439,704	\$ 598,774
Realized gain (loss) on investments	(2,200,105)	1,238,937
Unrealized loss on investments	<u>(2,865,576)</u>	<u>(3,872,038)</u>
	<u>(\$ 4,625,977)</u>	<u>(\$ 2,034,327)</u>

Investment management fees totaled approximately \$41,000 and \$51,000 for the years ended June 30, 2009 and 2008, respectively.

LIBRARY FOUNDATION OF LOS ANGELES

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 3 – Pledges Receivable

Unconditional pledges are recognized as revenue when a written pledge is made. The Foundation evaluates pledges for collection and considers the timing of collection. If the collection period of the pledge exceeds one year, the Foundation discounts the pledge at the time it is made. Pledges receivable are scheduled to be collected as follows:

	June 30,	
	2009	2008
Due in one year or less	\$ 2,003,295	\$ 1,996,669
Due after one year through five years	<u>50,000</u>	<u>1,075,000</u>
	2,053,295	3,071,669
Less 4.25% discount factor to present value	<u>(41,538)</u>	<u>(122,887)</u>
Pledges receivable	<u>\$ 2,011,757</u>	<u>\$ 2,948,782</u>

NOTE 4 – Interests in Charitable Remainder Trusts

The Foundation is the beneficiary of two charitable remainder trusts for which the Foundation is not the trustee. The Foundation recognizes the present value of the estimated future benefits to be received when the trust assets are distributed as temporarily restricted contribution revenue and as a receivable. Adjustments to the receivable to reflect amortization of the discount and revaluation of the present value of the estimated future payments to the lifetime beneficiary are recognized in the statement of activities as changes in value of charitable remainder trusts.

Beneficial interests in charitable remainder trusts totaled \$330,881 and \$408,961 at June 30, 2009 and 2008, respectively, representing the portion of the charitable remainder trusts for which the Foundation is the designated beneficiary.

LIBRARY FOUNDATION OF LOS ANGELES

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 5 – Net Assets Released from Restrictions

Net assets were released from donor restrictions on contributions received in both the current and prior periods by incurring expenses satisfying the restricted purposes specified by the donors as follows:

	June 30,	
	2009	2008
Adopt a branch and computer aides	\$ 443,524	\$ 474,305
Adult literacy	167,104	423,149
Technology	544,551	809,337
Cultural programs	499,396	279,258
Exhibitions	152,528	453,075
Children's programs	333,372	724,301
Library awareness and collections	220,445	363,979
Teen programs	329,575	561,120
	<u>\$ 2,690,495</u>	<u>\$ 4,088,524</u>

NOTE 6 – Permanently Restricted Net Assets

Permanently restricted net assets consist of amounts designated for the the following endowment funds:

	June 30,	
	2009	2008
The Caroline Singleton Adult Literacy Endowment	\$ 5,020,814	\$ 4,914,464
The National Endowment for Humanities	3,000,000	3,000,000
The Gregory Peck Literary Endowment	823,849	823,329
The Gluck Endowment	500,000	
	<u>\$ 9,344,663</u>	<u>\$ 8,737,793</u>

Earnings from the Caroline Singleton Adult Literacy Endowment Fund are designated to maintain and expand the Foundation's programs that address the problem of adult and family illiteracy in the City of Los Angeles.

LIBRARY FOUNDATION OF LOS ANGELES

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 6 – Permanently Restricted Net Assets (Continued)

The National Endowment for Humanities Fund has designated that earnings on the endowment are to be spent for humanities materials.

The Gregory Peck Literary Endowment Fund was established for the purpose of building the necessary financial resources to maintain literary readings and cultural programs in the Los Angeles Library in perpetuity, and to honor Mr. Peck for his work on behalf of the Los Angeles Public Library. The goal of the Gregory Peck Literary Endowment is \$2 million, which when funded is intended to provide an annual income of approximately \$100,000 to provide for the future of literary programs.

Earnings from the Gluck Endowment Fund are designated to purchase books for the Library.

NOTE 7 – Endowment

The Foundation's endowment consists of board-designated funds and several individual donor-designated funds to support a variety of purposes including literacy, humanities, and literary programs. Net assets associated with endowment funds, including funds designated by the board of directors to function as endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Through December 31, 2008, the Foundation's management and investment of donor-restricted endowment funds was subject to the provisions of the *Uniform Management of Institutional Funds Act* (UMIFA). In 2006, the Uniform Law Commission approved the model act, *Uniform Prudent Management of Institutional Funds Act* (UPMIFA) that serves as a guideline to states to use in enacting legislation. Among UPMIFA's most significant changes is the elimination of UMIFA's concept of historic dollar value threshold, the amount below which an organization could not spend from a donor-designated endowment fund, in favor of a more robust set of guidelines about what constitutes prudent spending. Effective January 1, 2009, the state of California enacted UPMIFA, the provisions of which apply to endowment funds existing on or established after that date.

LIBRARY FOUNDATION OF LOS ANGELES

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 7 – Endowment (Continued)

In August 2008, the FASB issued FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowments Funds* (FSP). Its guidance is effective for fiscal years ending after December 15, 2008. The FSP requires the Foundation to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. The FSP also requires expanded disclosures for all endowment funds.

The Foundation has interpreted California's enacted version of UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets: (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

Return Objectives and Risk Parameters

The Foundation's endowment funds are invested and managed according to their investment and spending policies. These policies attempt to provide a consistent return on assets in order to achieve a stable stream of funding for programs supported by the Foundation's endowment while seeking to maintain the purchasing power of the endowment assets. As a result, the endowment assets are invested in a manner that is intended to produce results that, over the long-term, meet or exceed the spending policy rate plus the rate of inflation.

LIBRARY FOUNDATION OF LOS ANGELES

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 7 – Endowment (Continued)

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 to achieve its long-term return objectives within prudent risk constraints. While the asset allocation guidelines established by the Foundation's investment committee vary somewhat among the funds, they are invested in large- and small-cap domestic stocks, international stocks, real estate stocks, and domestic fixed income vehicles.

Spending Policy and How the Investment Objectives Relate to the Spending Policy

The objective of the endowment funds' spending policies are to allocate the total endowment earnings between current spending and reinvestment for future earnings and expenditures in order to maintain or enhance the purchasing power of the Endowment. The Foundation has set policies for appropriating for expenditure each year either the lesser of the average earnings or three to four percent of the fund's average market value over the preceding 12 quarters, subject to maintaining certain minimum fund balances. The spending policies are consistent with the Foundation's objectives 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. Deficiencies of this nature, which are reported in unrestricted net assets as of June 30, 2009 and 2008, were approximately \$561,000 and \$53,000, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of restricted contributions to the endowment. Through September 30, 2009, investment appreciation from market performance had reduced the fund deficiencies within the Foundation's endowment to approximately \$55,000.

LIBRARY FOUNDATION OF LOS ANGELES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 7 – Endowment (Continued)

Endowment net asset composition by type of fund is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2009:				
Board-designated	\$ 8,369,628			\$ 8,369,628
Donor-designated	(560,544)	\$ 806,267	\$ 9,344,663	<u>9,590,386</u>
Total endowment funds	<u>\$ 7,809,084</u>	<u>\$ 806,267</u>	<u>\$ 9,344,663</u>	<u>\$ 17,960,014</u>
June 30, 2008:				
Board-designated	\$ 11,484,959			\$ 11,484,959
Donor-designated	(52,678)	\$ 2,210,802	\$ 8,737,793	<u>10,895,917</u>
Total endowment funds	<u>\$ 11,432,281</u>	<u>\$ 2,210,802</u>	<u>\$ 8,737,793</u>	<u>\$ 22,380,876</u>

Changes in endowment net assets for the year ended June 30, 2009 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning of year	\$ 11,432,281	\$ 2,210,802	\$ 8,737,793	\$ 22,380,876
Investment return:				
Investment income	244,961	135,988		380,949
Net appreciation	(3,613,158)	(1,452,523)		(5,065,681)
Total investment return	(3,368,197)	(1,316,535)		(4,684,732)
Contributions			606,870	606,870
Expenditures	(255,000)	(88,000)		(343,000)
End of year	<u>\$ 7,809,084</u>	<u>\$ 806,267</u>	<u>\$ 9,344,663</u>	<u>\$ 17,960,014</u>

LIBRARY FOUNDATION OF LOS ANGELES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 7 – Endowment (Continued)

Changes in endowment net assets for the year ended June 30, 2008 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning of year	\$ 13,012,379	\$ 3,107,140	\$ 8,581,805	\$ 24,701,324
Investment return:				
Investment income	356,531	200,134		556,665
Net appreciation	(1,646,629)	(986,472)	_____	(2,633,101)
Total investment return	(1,290,098)	(786,338)	_____	(2,076,436)
Contributions			155,988	155,988
Expenditures	(290,000)	(110,000)	_____	(400,000)
End of year	<u>\$ 11,432,281</u>	<u>\$ 2,210,802</u>	<u>\$ 8,737,793</u>	<u>\$ 22,380,876</u>

NOTE 8 – Los Angeles Public Library

The Foundation has an agreement with the Library to pay rent at the rate of 5% of gross Store sales. The rent expense incurred for the years ended June 30, 2009 and 2008 amounted to \$20,622 and \$25,089, respectively.

The Library provides office space at no charge to the Foundation. The Foundation has recorded in-kind contributions of \$24,000 for both of the years ended June 30, 2009 and 2008, for the donated space. Such in-kind support is offset by like amounts included in expenses.

LIBRARY FOUNDATION OF LOS ANGELES

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

NOTE 9 – Retirement Plan

The Foundation has a defined contribution 401(k) plan covering all of its eligible employees. The plan is subject to limitations set forth by the Internal Revenue Code. Eligible employees can contribute up to 15% of their gross compensation, not to exceed amounts provided by law. In addition, the eligible employees will receive a 50% matching contribution from the Foundation up to a maximum of 6% of their gross compensation as defined by the plan. These matching contributions amounted to \$11,850 and \$17,051 in 2009 and 2008, respectively.

NOTE 10 – Fair Value Measurements

Effective July 1, 2008, the Foundation adopted Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a market-based framework for measuring fair value, and expands disclosure about fair value measurements. SFAS 157 has been applied prospectively.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are other observable inputs, such as quoted prices for similar instruments or quoted prices in markets that are not active.
- Level 3 inputs are unobservable inputs for the asset or liability.

LIBRARY FOUNDATION OF LOS ANGELES

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 10 – Fair Value Measurements (Continued)

The following is a description of valuation methodologies used for assets recorded at fair value:

Investments: Where quoted prices are available in active markets, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include equity mutual funds and fixed income funds. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. These instruments, which would generally be classified within Level 2 of the fair value hierarchy, include corporate bonds.

Contributions receivable from charitable remainder trusts: The fair value of the contributions receivable from charitable remainder trusts is estimated as the present value of the projected proceeds that will be received from the charitable remainder trust. The value of these trusts relies on the Foundation’s own assumptions and, therefore, is classified within Level 3 of the fair value hierarchy.

The following table presents instruments that are measured at fair value on a recurring basis in the accompanying balance sheet at June 30, 2009:

	<u>Fair Value Measurements at Reporting Date Using</u>			
		<u>Quoted Prices</u>		
	<u>Assets at</u>	<u>in Active</u>	<u>Significant</u>	<u>Significant</u>
	<u>Fair Value</u>	<u>Markets for</u>	<u>Other</u>	<u>Unobservable</u>
		<u>Identical</u>	<u>Observable</u>	<u>Inputs</u>
		<u>Assets</u>	<u>Inputs</u>	<u>Inputs</u>
		<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Investments:				
Equity funds	\$ 10,808,655	\$ 10,808,655		
Fixed income funds	4,729,856	4,729,856		
Corporate bonds	504,797		\$ 504,797	
Contributions receivable from charitable remainder trusts	<u>330,881</u>			<u>\$ 330,881</u>
	<u>\$ 16,374,189</u>	<u>\$ 15,538,511</u>	<u>\$ 504,797</u>	<u>\$ 330,881</u>

LIBRARY FOUNDATION OF LOS ANGELES

**SUPPLEMENTAL INFORMATION
SCHEDULES OF EXPENSES**

	For the Year Ended June 30,	
	2009	2008
PROGRAM SERVICES		
Collateral material and promotions	\$ 245,459	\$ 414,577
Computer equipment	266,561	376,117
Library collections	488,514	1,038,785
Events	80,702	118,026
Furniture and fixtures	5,489	44,187
Seminars, exhibits, and workshops	434,374	484,291
Staff for program services	936,081	989,305
Administrative support	594,063	747,041
Capital improvements	761	36,947
Donated goods and services	48,596	477,693
	<u>3,100,600</u>	<u>4,726,969</u>
Library Store:		
Cost of goods sold	215,327	271,872
Salaries and payroll tax	125,872	140,007
Office administration and supplies	13,769	14,677
Rent	20,622	25,089
Other	8,700	15,170
	<u>384,290</u>	<u>466,815</u>
Total Program Services	<u>3,484,890</u>	<u>5,193,784</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and payroll tax	271,993	311,951
Collateral materials and printing	9,759	13,077
Office administration and supplies	89,937	119,262
Consulting and other outside services	93,693	164,085
Other	216,089	241,001
Total General and Administrative Expenses	<u>681,471</u>	<u>849,376</u>
FUND-RAISING EXPENSES		
Salaries and payroll tax	521,187	551,912
Other fund-raising expenses	172,249	238,642
Total Fund-Raising Expenses	<u>693,436</u>	<u>790,554</u>
TOTAL EXPENSES	<u>\$ 4,859,797</u>	<u>\$ 6,833,714</u>

See Independent Auditors' Report