

Library **Foundation** of **LOS ANGELES**

Providing Support for the Los Angeles Public Library

Financial Statements
June 30, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Library Foundation of Los Angeles

Report on the Financial Statements

We have audited the accompanying financial statements of Library Foundation of Los Angeles (the Foundation), which comprise the statements of financial position as of June 30, 2016 and 2015, 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.

Auditors' 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 auditors' 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 Library Foundation of Los Angeles as of June 30, 2016 and 2015, 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.



Long Beach, California
January 17, 2017

LIBRARY FOUNDATION OF LOS ANGELES

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2016	2015
ASSETS		
Cash and cash equivalents	\$ 461,232	\$ 922,100
Investments	36,376,072	37,313,067
Pledges receivable	1,891,975	1,139,843
Library store inventory	123,167	95,831
Property and equipment, net	584,680	217,208
Interests in charitable remainder trusts	444,405	446,842
Other assets	63,190	31,390
TOTAL ASSETS	\$ 39,944,721	\$ 40,166,281

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 5,516	\$ 130
Accrued expenses	91,643	90,422
Deferred revenue	388,831	389,942
	<u>485,990</u>	<u>480,494</u>

COMMITMENTS (Notes 10 and 11)

NET ASSETS

Unrestricted:

Available for general operations	1,244,441	1,866,354
Board-directed endowment	15,624,259	16,670,684
	<u>16,868,700</u>	<u>18,537,038</u>

Temporarily restricted:

Restricted for specific purpose	3,726,948	3,168,174
Endowment	5,404,370	6,541,862
	<u>9,131,318</u>	<u>9,710,036</u>

Permanently restricted - endowment	<u>13,458,713</u>	<u>11,438,713</u>
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Total Net Assets	<u>39,458,731</u>	<u>39,685,787</u>
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TOTAL LIABILITIES AND NET ASSETS	\$ 39,944,721	\$ 40,166,281
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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, 2016

	<u>Unrestricted</u>		<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
	<u>Undesignated</u>	<u>Board Directed</u>			
OPERATING ACTIVITY:					
SUPPORT AND REVENUE					
Contributions	\$ 1,467,348	\$ -	\$ 2,764,054	\$ 2,020,000	\$ 6,251,402
Fund-raising events - net of direct expenses of \$330,315	128,815	-	848,142	-	976,957
Store revenues, net of discounts	466,156	-	-	-	466,156
	<u>2,062,319</u>	<u>-</u>	<u>3,612,196</u>	<u>2,020,000</u>	<u>7,694,515</u>
NET ASSETS RELEASED FROM RESTRICTION/DESIGNATION:					
Endowment appropriations	1,158,676	(542,327)	(616,349)	-	-
Satisfaction of donor intent	3,050,985	-	(3,050,985)	-	-
Other adjustments	7,750	(7,750)	-	-	-
	<u>4,217,411</u>	<u>(550,077)</u>	<u>(3,667,334)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>6,279,730</u>	<u>(550,077)</u>	<u>(55,138)</u>	<u>2,020,000</u>	<u>7,694,515</u>
EXPENSES					
Program Services:					
Investing in Lifelong Learning	1,676,116				1,676,116
Engaging the Imagination	1,744,094				1,744,094
Helping Students Succeed	1,440,590				1,440,590
Library Store	513,664				513,664
Total Program Services	<u>5,374,464</u>				<u>5,374,464</u>
Supporting Services:					
General and administrative	656,433				656,433
Fund-raising	953,472				953,472
Total Supporting Services	<u>1,609,905</u>				<u>1,609,905</u>
TOTAL EXPENSES	<u>6,984,369</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,984,369</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>(704,639)</u>	<u>(550,077)</u>	<u>(55,138)</u>	<u>2,020,000</u>	<u>710,146</u>
NONOPERATING ACTIVITY:					
Interest and dividends, net of fees	81,618	188,540	197,958	-	468,116
Net realized and unrealized gain (loss) on investments	14,093	(684,888)	(719,101)	-	(1,389,896)
Other adjustments	(12,985)		(2,437)	-	(15,422)
	<u>82,726</u>	<u>(496,348)</u>	<u>(523,580)</u>	<u>-</u>	<u>(937,202)</u>
CHANGE IN NET ASSETS	(621,913)	(1,046,425)	(578,718)	2,020,000	(227,056)
BEGINNING NET ASSETS	<u>1,866,354</u>	<u>16,670,684</u>	<u>9,710,036</u>	<u>11,438,713</u>	<u>39,685,787</u>
ENDING NET ASSETS	<u>\$ 1,244,441</u>	<u>\$ 15,624,259</u>	<u>\$ 9,131,318</u>	<u>\$ 13,458,713</u>	<u>\$ 39,458,731</u>

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, 2015

	<u>Unrestricted</u>		<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
	<u>Undesignated</u>	<u>Board Directed</u>			
OPERATING ACTIVITY:					
SUPPORT AND REVENUE					
Contributions	\$ 1,328,848	\$ -	\$ 3,378,907	\$ 702,412	\$ 5,410,167
Fund-raising events - net of direct expenses of \$188,688	545,343	-	128,940	-	674,283
Store revenues, net of discounts	544,290	-	-	-	544,290
	<u>2,418,481</u>	<u>-</u>	<u>3,507,847</u>	<u>702,412</u>	<u>6,628,740</u>
NET ASSETS RELEASED FROM RESTRICTION/DESIGNATION:					
Endowment appropriations	1,038,180	(466,045)	(572,135)	-	-
Satisfaction of donor intent	3,315,453	-	(3,315,453)	-	-
	<u>4,353,633</u>	<u>(466,045)</u>	<u>(3,887,588)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>6,772,114</u>	<u>(466,045)</u>	<u>(379,741)</u>	<u>702,412</u>	<u>6,628,740</u>
EXPENSES					
Program Services:					
Investing in Lifelong Learning	1,889,770				1,889,770
Engaging the Imagination	1,704,060				1,704,060
Helping Students Succeed	1,245,097				1,245,097
Library Store	583,914				583,914
Total Program Services	<u>5,422,841</u>				<u>5,422,841</u>
Supporting Services:					
General and administrative	543,660				543,660
Fund-raising	892,027				892,027
Total Supporting Services	<u>1,435,687</u>				<u>1,435,687</u>
TOTAL EXPENSES	<u>6,858,528</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,858,528</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>(86,414)</u>	<u>(466,045)</u>	<u>(379,741)</u>	<u>702,412</u>	<u>(229,788)</u>
NONOPERATING ACTIVITY:					
Interest and dividends, net of fees	78,634	239,558	253,913	-	572,105
Net realized and unrealized loss on investments	(47,702)	(116,330)	(135,011)	-	(299,043)
Other adjustments	-	-	(17,371)	-	(17,371)
	<u>30,932</u>	<u>123,228</u>	<u>101,531</u>	<u>-</u>	<u>255,691</u>
CHANGE IN NET ASSETS	<u>(55,482)</u>	<u>(342,817)</u>	<u>(278,210)</u>	<u>702,412</u>	<u>25,903</u>
BEGINNING NET ASSETS	<u>1,921,836</u>	<u>17,013,501</u>	<u>9,988,246</u>	<u>10,736,301</u>	<u>39,659,884</u>
ENDING NET ASSETS	<u>\$ 1,866,354</u>	<u>\$ 16,670,684</u>	<u>\$ 9,710,036</u>	<u>\$ 11,438,713</u>	<u>\$ 39,685,787</u>

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

LIBRARY FOUNDATION OF LOS ANGELES

STATEMENT OF FUNCTIONAL EXPENSE FOR THE YEAR ENDED JUNE 30, 2016

	Program Services					Supporting Services		
	Investing in Lifelong Learning	Engaging the Imagination	Helping Students Succeed	Library Store	Total	General and Administrative	Fundraising	Total
Collateral material and promotions	\$ 12,406	\$ 131,999	\$ 156,169	\$ -	\$ 300,574	\$ 15,095	\$ -	\$ 315,669
Computer equipment	119,435	1,795	45,565	-	166,795	-	-	166,795
Library collections	-	42,520	105,364	-	147,884	-	20,799	168,683
Events	-	329,659	-	-	329,659	-	-	329,659
Furniture and fixtures	-	3,628	117,581	-	121,209	-	-	121,209
Seminars, exhibits, and workshops	97,447	250,618	589,893	-	937,958	-	-	937,958
Salaries, payroll taxes, and benefits	1,435,267	976,013	422,614	199,357	3,033,251	452,857	838,254	4,324,362
Cost of goods sold	-	-	-	237,913	237,913	-	-	237,913
Rent	-	-	-	23,307	23,307	-	-	23,307
Mobile library store	-	-	-	8,520	8,520	-	-	8,520
Other	5,492	3,735	1,617	30,609	41,453	42,145	63,975	147,573
Office administration and supplies	6,069	4,127	1,787	13,958	25,941	41,108	30,444	97,493
Consulting and outside services	-	-	-	-	-	89,814	-	89,814
Travel and related expenses	-	-	-	-	-	15,414	-	15,414
	<u>\$ 1,676,116</u>	<u>\$ 1,744,094</u>	<u>\$ 1,440,590</u>	<u>\$ 513,664</u>	<u>\$ 5,374,464</u>	<u>\$ 656,433</u>	<u>\$ 953,472</u>	<u>\$ 6,984,369</u>

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

LIBRARY FOUNDATION OF LOS ANGELES

STATEMENT OF FUNCTIONAL EXPENSE FOR THE YEAR ENDED JUNE 30, 2015

	Program Services					Supporting Services		
	Investing in Lifelong Learning	Engaging the Imagination	Helping Students Succeed	Library Store	Total	General and Administrative	Fundraising	Total
Collateral material and promotions	\$ 76,053	\$ 146,476	\$ 142,569	\$ -	\$ 365,098	\$ 13,928	\$ -	\$ 379,026
Computer equipment	42,758	29,714	809	-	73,281	-	-	73,281
Library collections	8,150	56,464	36,596	-	101,210	-	-	101,210
Events	236	243,774	-	-	244,010	-	105,677	349,687
Furniture and fixtures	1,999	141,371	119,423	-	262,793	-	-	262,793
Seminars, exhibits, and workshops	121,565	261,737	575,834	-	959,136	-	-	959,136
Salaries, payroll taxes, and benefits	1,639,009	824,524	369,866	210,188	3,043,587	334,618	707,849	4,086,054
Cost of goods sold	-	-	-	286,730	286,730	-	-	286,730
Rent	-	-	-	27,232	27,232	-	-	27,232
Mobile library store	-	-	-	11,390	11,390	-	-	11,390
Other	-	-	-	32,461	32,461	17,431	78,501	128,393
Office administration and supplies	-	-	-	15,913	15,913	64,630	-	80,543
Consulting and outside services	-	-	-	-	-	106,526	-	106,526
Travel and related expenses	-	-	-	-	-	6,527	-	6,527
	<u>\$ 1,889,770</u>	<u>\$ 1,704,060</u>	<u>\$ 1,245,097</u>	<u>\$ 583,914</u>	<u>\$ 5,422,841</u>	<u>\$ 543,660</u>	<u>\$ 892,027</u>	<u>\$ 6,858,528</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>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (227,056)	\$ 25,903
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	39,065	17,894
Loss on disposal of asset	12,985	-
Net realized and unrealized loss on investments	1,389,896	299,043
Change in value of charitable remainder trusts	2,437	17,371
Changes in operating assets and liabilities:		
Pledges receivable	(752,132)	610,181
Library store inventory	(27,336)	21,777
Other assets	(31,800)	22,318
Accounts payable	5,386	(340)
Accrued expenses	1,221	3,803
Deferred revenue	(1,111)	(137,558)
Net Cash Provided By Operating Activities	<u>411,555</u>	<u>880,392</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale or maturity of investments	2,182,822	7,387,945
Purchases of investments	(2,635,723)	(7,949,044)
Purchases of equipment	(419,522)	(148,288)
Net Cash Used In Investing Activities	<u>(872,423)</u>	<u>(709,387)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(460,868)	171,005
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	<u>922,100</u>	<u>751,095</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u>\$ 461,232</u>	<u>\$ 922,100</u>

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

LIBRARY FOUNDATION OF LOS ANGELES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 – Organization and Programs

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.

Programs

The following is a description of the Foundation's program categories:

Investing in Lifelong Learning – The Foundation is committed to breaking cycles of low literacy by working with children and their parents/caregivers at all 73 Library locations and in partnership with local schools and community organizations. The Foundation offers a series of literacy related activities for children. A variety of programs assist adults in learning skills to improve their reading and writing abilities so the adults can read aloud with their children from birth in hopes of fostering a love of lifelong reading. The Foundation also provides resources to digitize physical collections to preserve the collection and provide accessibly via the Internet.

Engaging the Imagination – Throughout the year, the Foundation brings many established and emerging authors, poets, journalists, academics, and artists for public events. The Foundation also seeks to inspire and challenge people with free exhibitions and unique public programming that explores art and literature, the cultural landscape of Los Angeles, and the vast collections of the Library.

Helping Students Succeed – For students using the Library to complete school assignments, participate in activities, and conduct research, the Foundation's programs offer on-demand individual tutoring, access to computers and free printing of homework assignments, college-preparation workshops and practice SAT/ACT/PSAT exams. The Foundation also provides science, technology, engineering, art, and math projects via the Full Steam Ahead program.

Library Store – The Foundation operates a gift store located in the historic Los Angeles Central Library. The Library Store was remodeled in 2016, after 18 years, in order to refresh the appearance and bring it into full ADA compliance. The Library Store sales support the Los Angeles Public Library.

LIBRARY FOUNDATION OF LOS ANGELES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 – Summary of Significant Accounting Policies

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 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. The funds also include investment earnings accumulated on restricted endowments that are designated to support purposes specified in those endowment agreements. 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.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and 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.

LIBRARY FOUNDATION OF LOS ANGELES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Deferred Revenue

Payments for special events are recorded as deferred revenue when received as revenue recognition is considered to be conditioned on the event taking place. At June 30, 2016, deferred revenue relates primarily to the Foundation's 24th Celebration Awards Dinner and the 2017 Young Literati Toast. At June 30, 2015, deferred revenue relates primarily to the 2015 Literary Feasts.

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 (GAAP) 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, 2016 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, 2016 AND 2015

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Investment Valuation and Market Risk

Investments are reported at fair value based on quotations obtained from national securities exchanges. Alternative investments, which are not readily marketable, are carried at estimated fair value using the net asset value (NAV) as reported by the management of the respective institutional investment fund. GAAP provides for the use of NAV as a practical expedient for estimating fair value for alternative investments. The Foundation reviews and evaluates the NAV provided by the funds and believes the valuation methods and assumptions used in determining the fair value of the investment funds are appropriate.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of changes in net assets as reported in the accompanying statements of activities.

Investments 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 significant changes in the fair value of investments 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.

Property and Equipment

Property and equipment 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 lives of five years. Property and equipment purchased on behalf of the Library are recorded as expenses.

Program Services

When the Foundation expends assets for program services in accordance with donor designations, these temporarily restricted net assets are released from restrictions. (See Note 7.) In addition, the Foundation also expends unrestricted net assets for program services.

LIBRARY FOUNDATION OF LOS ANGELES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 – Summary of Significant Accounting Policies (Continued)

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 supporting 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.

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. The Foundation recognizes the financial statement benefit of a tax position, such as its filing status as tax-exempt, only after determining that the relevant tax authority would more likely than not sustain the position following an audit. The Foundation is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal purposes is three years and for California purposes is four years.

Board-Directed Endowment

The board-directed endowment is composed of funds which are internally designated and used at the discretion of the governing board to achieve core mission initiatives. The endowment is used to build capacity, strengthen programs, and leverage philanthropy.

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 \$150,173 and \$161,252 of donated goods and professional services for the years ended June 30, 2016 and 2015, 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.

Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the current year presentation.

LIBRARY FOUNDATION OF LOS ANGELES

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Subsequent Events

In preparing these financial statements, the Foundation's management has evaluated events and transactions for potential recognition or disclosure through January 17, 2017, the date the financial statements were available to be issued.

NOTE 3 – Investments

Investments consist of the following:

	June 30,	
	2016	2015
Investments:		
US Treasury bonds	\$ 381,845	\$ 171,766
Corporate bonds - domestic	1,632,622	1,783,805
Mortgage securities	1,089,505	957,828
Foreign bonds	95,467	316,869
Equity funds	19,901,435	20,648,162
Fixed income	8,235,710	7,860,090
Hedge fund strategies	1,543,871	3,530,670
Real assets	3,495,617	2,043,877
	<u>\$ 36,376,072</u>	<u>\$ 37,313,067</u>

Investment return consists of the following:

	For the Year Ended June 30,	
	2016	2015
Interest and dividends	\$ 559,665	\$ 664,315
Net unrealized loss on investments	(1,325,434)	(273,579)
Net realized loss on investments	(64,462)	(25,464)
Investment management fees	(91,549)	(92,210)
	<u>\$ (921,780)</u>	<u>\$ 273,062</u>

LIBRARY FOUNDATION OF LOS ANGELES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 4 – Pledges Receivable

Pledges receivable outstanding at June 30, 2016 are expected to be collected as follows:

Within one year	\$ 1,141,975
Between two and five years	700,000
Beyond five years	<u>50,000</u>
	<u>\$ 1,891,975</u>

NOTE 5 – 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 statements of activities as changes in value of charitable remainder trusts reported within other adjustments.

Beneficial interests in charitable remainder trusts totaled \$444,405 and \$446,842 at June 30, 2016 and 2015, respectively, representing the portion of the charitable remainder trusts for which the Foundation is the designated beneficiary.

NOTE 6 – Board-Designated Net Assets

The Board of Directors has designated certain net assets toward endowment funds as follows:

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
Board-designated endowment fund to supporting priority program and foundation activities	\$ 12,503,867	\$ 13,406,480
Victoria E. Foote endowment fund supporting students pursuing their educational goals	<u>3,120,392</u>	<u>3,264,204</u>
	<u>\$ 15,624,259</u>	<u>\$ 16,670,684</u>

LIBRARY FOUNDATION OF LOS ANGELES

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 7 – 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,	
	2016	2015
Investing in Lifelong Learning	\$ 1,229,790	\$ 1,411,091
Engaging the Imagination	1,223,973	1,403,675
Helping Students Succeed	<u>1,213,571</u>	<u>1,072,822</u>
	<u>\$ 3,667,334</u>	<u>\$ 3,887,588</u>

NOTE 8 – Permanently Restricted Net Assets

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

	June 30,	
	2016	2015
Caroline Singleton Adult Literacy Endowment	\$ 5,062,352	\$ 5,062,352
National Endowment for Humanities	3,000,000	3,000,000
Thornton Endowment	1,000,000	1,000,000
Future Leaders Endowment	1,000,000	-
Edythe Broad Technology Endowment	1,000,000	-
Gregory Peck Literary Endowment	823,949	823,949
Gluck Endowment	500,000	500,000
Claire Hutto-Patterson Endowment	250,000	250,000
Sharon Oxborough Endowment	50,000	50,000
Lynn Strasburg Miller Endowment	60,000	50,000
Estella Fregoso de Garcia Endowment	692,412	692,412
Dean Hansell Endowment	<u>20,000</u>	<u>10,000</u>
	<u>\$ 13,458,713</u>	<u>\$ 11,438,713</u>

LIBRARY FOUNDATION OF LOS ANGELES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 8 – Permanently Restricted Net Assets (Continued)

Earnings from the Caroline Singleton Adult Literacy Endowed and the Thornton Endowed Funds are designated to maintain and expand the Foundation's programs that address the problem of adult and child literacy in the city of Los Angeles.

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

The Future Leaders Endowed Fund was established for the purpose of bringing noted authors to the branches of the Los Angeles Public Library's children and teen Summer Reading program. This \$1,000,000 gift is permanently restricted and only earnings from the Future Leaders Endowed Fund for Summer Reading are designated to support this program.

The Edythe Broad Technology Endowed Fund for Students was established for the purpose of supporting the Los Angeles Public Library's technology programs within Student Zones. This \$1,000,000 gift is permanently restricted and only earnings from the Edythe Broad Technology Endowed Fund for Students are designated to support this program.

The Gregory Peck Literary Endowed Fund was established for the purpose of building the necessary financial resources to maintain literary readings and cultural programs in the Los Angeles Public Library in perpetuity, and to honor Mr. Peck for his work on behalf of the Los Angeles Public Library.

The Estella Fregoso de Garcia Endowed Fund was established for the purpose of supporting the Los Angeles Public Library's Spanish and French collections. The gift is permanently restricted and only earnings from the Estella Fregoso de Garcia Endowment Fund are designated to support programs and materials with Spanish and French languages.

Earnings from the Gluck Endowed Fund are designated to purchase books for the Los Angeles Public Library.

The Clare Hutto-Patterson Endowed Fund was established for the purpose of supporting the Los Angeles Public Library's Live Homework Help program. This pledged gift is permanently restricted and only earnings from the Clare Hutto-Patterson Endowment Fund are designated to support Live Homework Help.

LIBRARY FOUNDATION OF LOS ANGELES

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

NOTE 8 – Permanently Restricted Net Assets (Continued)

The Sharon Oxborough Endowed Fund was established for the purpose of supporting the Foundation's signature literary series, ALOUD. This gift is permanently restricted and only earnings from the Sharon Oxborough Endowed Fund for ALOUD are designated to support this program.

The Lynn Strasburg Miller Endowed Fund was established for the purpose of supporting the Los Angeles Public Library's Student Zones program. This pledged gift is permanently restricted and only earnings from the Lynn Strasburg Miller Endowed Fund are designated to support this program.

The Dean Hansell Endowed Fund was established for the purpose of supporting the Los Angeles Public Library's Adult Literacy program. The gift is permanently restricted and only earnings from the Dean Hansell Endowment Fund for Adult Literacy are designated to support the program.

NOTE 9 – 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.

The Foundation's management and investment of donor-restricted endowment funds is subject to the provisions of the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA). 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.

LIBRARY FOUNDATION OF LOS ANGELES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 9 – Endowment (Continued)

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.

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 employs a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

The Foundation maintains an advisory services agreement with Commonfund's Strategic Solutions program. This program diversifies the Foundation's investment portfolio into emerging markets, private equity, and alternatives.

Spending Policy and the Related Investment Objectives

The Foundation has set policies for appropriating for expenditure each year 4 to 6% of the endowment fund's average fair 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. 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 policies to allow for an accumulation of earnings over time that will create endowment growth sufficient to preserve or increase the purchasing power of its endowment funds. The net accumulation of investment earnings under this policy for restricted endowment funds is classified within temporarily restricted net assets.

LIBRARY FOUNDATION OF LOS ANGELES

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

NOTE 9 – Endowment (Continued)

Funds with Deficiencies

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. No such deficiencies existed as of June 30, 2016 and 2015.

Amounts Appropriated for Expenditure

The amounts appropriated for expenditure during the year ended June 30, 2016 were \$542,327 from the Board Directed Endowment fund and \$616,349 from Donor Designated Endowment funds. These amounts are reflected in the accompanying statement of activities within net assets released from restriction/designation.

At June 30, 2016, the endowment totaled \$34,487,342, which includes \$5,404,370 of temporarily restricted net assets. The remaining \$3,726,948 of temporarily restricted net assets has not been endowed, but rather designated by donors for a specific spending purpose.

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>
At June 30, 2016:				
Board-designated	\$ 15,624,259	\$ -	\$ -	\$ 15,624,259
Donor-designated:				
Temporarily restricted	-	5,404,370	-	5,404,370
Permanently restricted	-	-	13,458,713	13,458,713
	-	5,404,370	13,458,713	18,863,083
Total endowment funds	\$ 15,624,259	\$ 5,404,370	\$ 13,458,713	\$ 34,487,342
At June 30, 2015:				
Board-designated	\$ 16,670,684	\$ -	\$ -	\$ 16,670,684
Donor-designated:				
Temporarily restricted	-	6,541,862	-	6,541,862
Permanently restricted	-	-	11,438,713	11,438,713
	-	6,541,862	11,438,713	17,980,575
Total endowment funds	\$ 16,670,684	\$ 6,541,862	\$ 11,438,713	\$ 34,651,259

LIBRARY FOUNDATION OF LOS ANGELES

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 9 – Endowment (Continued)

Changes in endowment net assets for the year ended June 30, 2016 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning of year	\$ 16,670,684	\$ 6,541,862	\$ 11,438,713	\$ 34,651,259
Investment return:				
Interest and dividends	188,540	197,958	-	386,498
Net depreciation	(684,888)	(719,101)	-	(1,403,989)
Total investment return	(496,348)	(521,143)	-	(1,017,491)
Contributions and other adjustments	(7,750)	-	2,020,000	2,012,250
Amounts appropriated for expenditure	(542,327)	(616,349)	-	(1,158,676)
End of year	\$ 15,624,259	\$ 5,404,370	\$ 13,458,713	\$ 34,487,342

Changes in endowment net assets for the year ended June 30, 2015 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning of year	\$ 17,013,501	\$ 6,701,637	\$ 10,736,301	\$ 34,451,439
Investment return:				
Interest and dividends	239,558	253,913	-	493,471
Net depreciation	(116,330)	(135,011)	-	(251,341)
Total investment return	123,228	118,902	-	242,130
Contributions	-	293,458	702,412	995,870
Amounts appropriated for expenditure	(466,045)	(572,135)	-	(1,038,180)
End of year	\$ 16,670,684	\$ 6,541,862	\$ 11,438,713	\$ 34,651,259

LIBRARY FOUNDATION OF LOS ANGELES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 10 – Los Angeles Public Library

The Foundation has an agreement with the Library to pay rent for the Store at the rate of 5% of gross Store sales. The rent expense incurred for the years ended June 30, 2016 and 2015 amounted to approximately \$23,000 and \$27,000, respectively.

The Library provides office space at no charge to the Foundation. The Foundation has recorded in-kind contributions of \$24,000 in the years ended June 30, 2016 and 2015, for the donated space. Such in-kind support is offset by like amounts included in expenses.

NOTE 11 – 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 28% of their gross compensation, not to exceed amounts provided by law. Prior to January 1, 2015, the eligible employees received a 50% matching contribution from the Foundation up to a maximum of 6% of their gross compensation as defined by the plan. Beginning on January 1, 2015, the plan was amended to include a Safe Harbor feature, where eligible employees receive a 100% vested matching contribution up to 3% of the employee's deferral and an additional 50% vested matching contribution on the next 2% of the employee's deferral. Matching contributions amounted to \$71,055 and \$59,632 in 2016 and 2015, respectively.

NOTE 12 – Fair Value Measurements

Fair value is defined 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. In determining fair value, the Foundation uses various valuation approaches based on assumptions that market participants would use in pricing an asset or liability.

The Financial Accounting Standards Board has established 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 three levels of the fair value hierarchy are as follows:

- 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, 2016 AND 2015

NOTE 12 – Fair Value Measurements (Continued)

Following is a description of valuation methodologies used for assets recorded at fair value. There have been no changes in methodologies used at June 30, 2016 and 2015.

Investments: Where quoted prices are available in active markets, investments are classified within Level 1 of the valuation hierarchy. Level 1 securities include exchange traded equity and fixed income funds. If quoted market prices are not available for investments, then fair values are estimated using direct or indirect observations other than quoted market prices. These investments, recorded in Level 2, include those in which the Foundation is a unit of account holder within a fund that holds underlying assets that are traded in active exchange markets with readily available pricing.

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 sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value at June 30, 2016 and 2015:

	Total Fair Value	Assets at Fair Value as of June 30, 2016		
		Level 1	Level 2	Level 3
Investments:				
US Treasury bonds	\$ 381,845	\$ 381,845	\$ -	\$ -
Corporate bonds-domestic	1,632,622	1,632,622	-	-
Mortgage securities	1,089,505	1,089,505	-	-
Foreign bonds	95,467	95,467	-	-
Equity funds	19,901,435	-	19,901,435	-
Fixed income	8,235,710	-	8,235,710	-
Hedge fund strategies	1,543,871	-	1,543,871	-
Real assets	3,495,617	-	3,495,617	-
	<u>36,376,072</u>	<u>3,199,439</u>	<u>33,176,633</u>	<u>-</u>
Interests in charitable remainder trusts	<u>444,405</u>	<u>-</u>	<u>-</u>	<u>444,405</u>
	<u>\$ 36,820,477</u>	<u>\$ 3,199,439</u>	<u>\$ 33,176,633</u>	<u>\$ 444,405</u>

LIBRARY FOUNDATION OF LOS ANGELES

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 12 – Fair Value Measurements (Continued)

	Total Fair Value	Assets at Fair Value as of June 30, 2015		
		Level 1	Level 2	Level 3
Investments:				
US Treasury bonds	\$ 171,766	\$ 171,766	\$ -	\$ -
Corporate bonds-domestic	1,783,805	1,783,805	-	-
Mortgage notes	957,828	957,828	-	-
Foreign bonds	316,869	316,869	-	-
Equity funds	20,648,162	-	20,648,162	-
Fixed income	7,860,090	-	7,860,090	-
Hedge fund strategies	3,530,670	-	3,530,670	-
Real assets	<u>2,043,877</u>	<u>-</u>	<u>2,043,877</u>	<u>-</u>
	37,313,067	3,230,268	34,082,799	-
Interests in charitable remainder trusts	<u>446,842</u>	<u>-</u>	<u>-</u>	<u>446,842</u>
	<u>\$ 37,759,909</u>	<u>\$ 3,230,268</u>	<u>\$ 34,082,799</u>	<u>\$ 446,842</u>

Investments classified in Level 2 consist of units in investment funds as opposed to direct investments in the funds' underlying holdings, which may be marketable. As the NAV reported by each fund is used as a practical expedient to estimate the fair value of the Foundation's interest therein, its classification in Level 2 is based on the Foundation's ability to redeem its interest at or near the date of the statement of financial position. If the interest can be redeemed in the near term, the investment is classified in Level 2. The Foundation is invested in funds which generally trade on a monthly basis and require a week's notice to liquidate. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets.