

Library
Foundation
of LOS ANGELES

Providing Support for the Los Angeles Public Library

Financial Statements
June 30, 2015 and 2014

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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, 2015 and 2014, 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 auditors consider 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, 2015 and 2014, 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 28, 2016

LIBRARY FOUNDATION OF LOS ANGELES

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2015	2014
ASSETS		
Cash and cash equivalents	\$ 922,100	\$ 751,095
Investments	37,313,067	37,051,011
Pledges receivable	1,139,843	1,750,024
Library store inventory	95,831	117,608
Property and equipment, net	217,208	86,814
Interests in charitable remainder trusts	446,842	464,213
Other assets	<u>31,390</u>	<u>53,708</u>
TOTAL ASSETS	<u>\$ 40,166,281</u>	<u>\$ 40,274,473</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 130	\$ 470
Accrued expenses	90,422	86,619
Deferred revenue	<u>389,942</u>	<u>527,500</u>
	<u>480,494</u>	<u>614,589</u>

COMMITMENTS (Notes 10 and 11)

NET ASSETS

Unrestricted:

Available for general operations	1,866,354	1,921,836
Board-directed endowment	<u>16,670,684</u>	<u>17,013,501</u>
	<u>18,537,038</u>	<u>18,935,337</u>

Temporarily restricted:

Restricted for specific purpose	3,168,174	3,286,609
Endowment	<u>6,541,862</u>	<u>6,701,637</u>
	<u>9,710,036</u>	<u>9,988,246</u>

Permanently restricted – endowment	<u>11,438,713</u>	<u>10,736,301</u>
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Total Net Assets	<u>39,685,787</u>	<u>39,659,884</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 40,166,281</u>	<u>\$ 40,274,473</u>
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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, 2015**

	Unrestricted				
	Undesignated	Board Directed	Temporarily Restricted	Permanently Restricted	Total
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
	2,418,481	—	3,507,847	702,412	6,628,740
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)	—	—
	4,353,633	(466,045)	(3,887,588)	—	—
TOTAL SUPPORT AND REVENUE	6,772,114	(466,045)	(379,741)	702,412	6,628,740
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	5,422,841				5,422,841
Supporting Services:					
General and administrative	543,660				543,660
Fund-raising	892,027				892,027
Total Supporting Services	1,435,687				1,435,687
TOTAL EXPENSES	6,858,528				6,858,528
CHANGE IN NET ASSETS FROM OPERATIONS	(86,414)	(466,045)	(379,741)	702,412	(229,788)
NONOPERATING ACTIVITY:					
Interest and dividends	78,634	239,558	253,913		572,105
Net realized and unrealized gain (loss) on investments	(47,702)	(116,330)	(135,011)		(299,043)
Change in value of charitable remainder trusts	—	—	(17,371)		(17,371)
	30,932	123,228	101,531		255,691
CHANGE IN NET ASSETS	(55,482)	(342,817)	(278,210)	702,412	25,903
BEGINNING NET ASSETS	1,921,836	17,013,501	9,988,246	10,736,301	39,659,884
ENDING NET ASSETS	\$ 1,866,354	\$ 16,670,684	\$ 9,710,036	\$ 11,438,713	\$ 39,685,787

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, 2014**

	Unrestricted				
	Undesignated	Board Directed	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITY:					
SUPPORT AND REVENUE					
Contributions	\$ 1,402,655	\$ 250,000	\$ 2,643,732	\$ 350,000	\$ 4,646,387
Fund-raising events – net of direct expenses of \$116,405	–	–	640,320	–	640,320
Store revenues, net of discounts	500,003	–	–	–	500,003
	1,902,658	250,000	3,284,052	350,000	5,786,710
NET ASSETS RELEASED FROM RESTRICTION/DESIGNATION:					
Endowment appropriations	961,914	(432,438)	(529,476)	–	–
Satisfaction of donor intent	2,983,602	–	(2,983,602)	–	–
	3,945,516	(432,438)	(3,513,078)	–	–
TOTAL SUPPORT AND REVENUE	5,848,174	(182,438)	(229,026)	350,000	5,786,710
EXPENSES					
Program Services:					
Investing in Lifelong Learning	2,049,202				2,049,202
Engaging the Imagination	1,121,650				1,121,650
Helping Students Succeed	940,702				940,702
Library Store	548,669				548,669
Total Program Services	4,660,223				4,660,223
Supporting Services:					
General and administrative	687,504				687,504
Fund-raising	819,259				819,259
Total Supporting Services	1,506,763				1,506,763
TOTAL EXPENSES	6,166,986				6,166,986
CHANGE IN NET ASSETS FROM OPERATIONS	(318,812)	(182,438)	(229,026)	350,000	(380,276)
NONOPERATING ACTIVITY:					
Interest and dividends	115,083	339,205	394,839		849,127
Net realized and unrealized gain (loss) on investments	(12,571)	1,947,105	2,266,456		4,200,990
Change in value of charitable remainder trusts	–	–	41,127		41,127
	102,512	2,286,310	2,702,422		5,091,244
CHANGE IN NET ASSETS	(216,300)	2,103,872	2,473,396		4,710,968
BEGINNING NET ASSETS	2,138,136	14,909,629	7,514,850	10,386,301	34,948,916
ENDING NET ASSETS	\$ 1,921,836	\$ 17,013,501	\$ 9,988,246	\$ 10,736,301	\$ 39,659,884

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**

	<u>Program Services</u>					<u>Supporting Services</u>		
	<u>Investing in Lifelong Learning</u>	<u>Engaging the Imagination</u>	<u>Helping Students Succeed</u>	<u>Library Store</u>	<u>Total</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Collateral material and promotions	\$ 76,053	\$ 146,476	\$ 142,569	\$ —	\$ 365,095	\$ 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 and payroll taxes	1,134,565	570,757	256,031	210,188	2,171,541	334,618	707,849	3,214,008
Administrative support	504,444	253,767	113,835	—	872,046	—	—	872,046
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 other outside services	—	—	—	—	—	106,526	—	106,526
Traveling and related expenses	—	—	—	—	—	6,527	—	6,527
TOTAL EXPENSES	<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

**STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED JUNE 30, 2014**

	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	\$ 112,005	\$ 82,317	\$ 108,755	\$ —	\$ 303,077	\$ 6,039	\$ —	\$ 309,116
Computer equipment	66,436	13,930	47,768	—	128,134	—	—	128,134
Library collections	3,710	208,920	69,714	—	282,344	—	—	282,344
Events	72,940	133,436	—	—	206,376	—	—	206,376
Furniture and fixtures	4,148	3,691	19,215	—	27,054	—	—	27,054
Seminars, exhibits, and workshops	313,647	229,980	513,201	—	1,056,828	—	—	1,056,828
Salaries and payroll taxes	1,029,936	300,640	127,006	178,681	1,636,263	362,190	721,368	2,719,821
Administrative support	446,380	148,736	55,043	—	650,159	—	—	650,159
Cost of goods sold	—	—	—	274,687	274,687	—	—	274,687
Rent	—	—	—	25,506	25,506	—	—	25,506
Mobile library store	—	—	—	12,317	12,317	—	—	12,317
Other	—	—	—	33,359	33,359	109,162	97,891	240,412
Office administration and supplies	—	—	—	24,119	24,119	93,014	—	117,133
Consulting and other outside services	—	—	—	—	—	102,523	—	102,523
Traveling and related expenses	—	—	—	—	—	14,576	—	14,576
TOTAL EXPENSES	<u>\$ 2,049,202</u>	<u>\$ 1,121,650</u>	<u>\$ 940,702</u>	<u>\$ 548,669</u>	<u>\$ 4,660,223</u>	<u>\$ 687,504</u>	<u>\$ 819,259</u>	<u>\$ 6,166,986</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,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 25,903	\$ 4,710,968
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	17,894	15,932
Net realized and unrealized (gain) loss on investments	299,043	(4,200,990)
Change in value of charitable remainder trusts	17,371	(41,127)
Changes in operating assets and liabilities:		
Pledges receivable	610,181	1,798,344
Library store inventory	21,777	(1,608)
Other assets	22,318	47,155
Accounts payable	(340)	(4,190)
Accrued expenses	3,803	(43,371)
Deferred revenue	(137,558)	349,800
Net Cash Provided By Operating Activities	880,392	2,630,913
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale or maturity of investments	7,387,945	34,124,297
Purchases of investments	(7,949,044)	(36,520,206)
Purchases of equipment	(148,288)	(37,500)
Net Cash Used In Investing Activities	(709,387)	(2,433,409)
NET CHANGE IN CASH AND CASH EQUIVALENTS	171,005	197,504
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	751,095	553,591
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	\$ 922,100	\$ 751,095

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

LIBRARY FOUNDATION OF LOS ANGELES

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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 life-long reading.

The Foundation also provides resources to digitize physical collections to preserve the collection and provide accessibly via the Internet. In 2013-2014, the Foundation also began offering an accredited high school diploma to those who completed the Career Online High School program.

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 Los Angeles Central Library.

LIBRARY FOUNDATION OF LOS ANGELES

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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.

LIBRARY FOUNDATION OF LOS ANGELES

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

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.

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, 2015 and 2014, deferred revenue relates primarily to the Foundation's 2015 Literary Feasts and the 22nd Anniversary Awards Dinner, respectively.

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, 2015 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, 2015 AND 2014

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, 2015 AND 2014**

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 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 \$161,252 and \$229,827 of donated goods and professional services for the years ended June 30, 2015 and 2014, 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.

LIBRARY FOUNDATION OF LOS ANGELES

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

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 28, 2016, the date the financial statements were available to be issued.

NOTE 3 – Investments

Investments consist of the following:

	June 30,	
	2015	2014
Investments:		
US Treasury bonds	\$ 171,766	\$ 121,735
Corporate bonds - domestic	1,783,805	1,602,666
Mortgage notes	957,828	1,030,365
Foreign bonds	316,869	444,807
Equity funds	20,648,162	21,202,238
Fixed income	7,860,090	7,548,803
Hedge fund strategies	3,530,670	3,436,505
Real assets	2,043,877	1,663,892
	<u>\$ 37,313,067</u>	<u>\$ 37,051,011</u>

Investment return consists of the following:

	For the Year Ended June 30,	
	2015	2014
Interest and dividends	\$ 572,105	\$ 849,127
Net realized and unrealized gain (loss) on investments	(299,043)	4,200,990
	<u>\$ 273,062</u>	<u>\$ 5,050,117</u>

Investment management fees totaled approximately \$92,000 and \$97,000 for the years ended June 30, 2015 and 2014, respectively.

LIBRARY FOUNDATION OF LOS ANGELES

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 4 – 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 totaled \$1,139,843 and \$1,750,024 at June 30, 2015 and 2014, respectively. Pledges receivable are expected to be collected within one year.

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.

Beneficial interests in charitable remainder trusts totaled \$446,842 and \$464,213 at June 30, 2015 and 2014, 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>2015</u>	<u>2014</u>
Board-designated endowment fund to supporting priority program and foundation activities	\$ 13,406,480	\$ 13,767,218
Victoria E. Foote endowment fund supporting students pursuing their educational goals	<u>3,264,204</u>	<u>3,246,283</u>
	<u>\$ 16,670,684</u>	<u>\$ 17,013,501</u>

LIBRARY FOUNDATION OF LOS ANGELES

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

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,	
	2015	2014
Adopt-a-branch and computer aides	\$ 406,414	\$ 420,064
Adult literacy	584,158	635,377
Technology	162,163	123,416
Cultural programs	782,138	713,879
Exhibitions	445,762	20,520
Children’s programs	433,803	367,054
Library awareness and collections	332,550	628,019
Teen programs	740,600	604,749
	<u>\$ 3,887,588</u>	<u>\$ 3,513,078</u>

NOTE 8 – Permanently Restricted Net Assets

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

	June 30,	
	2015	2014
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
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	50,000	50,000
Estella Fregoso de Garcia Endowment	692,412	
Dean Hansell Endowment	10,000	
	<u>\$ 11,438,713</u>	<u>\$ 10,736,301</u>

LIBRARY FOUNDATION OF LOS ANGELES

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 8 – Permanently Restricted Net Assets (Continued)

Earnings from the Caroline Singleton Adult Literacy Endowment and the Thornton Endowment 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 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 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 Endowment Fund is being 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 Endowment Fund are designated to purchase books for the Los Angeles Public Library.

The Clare Hutto-Patterson Endowment Fund is being 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.

The Sharon Oxborough Endowment 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 is being 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.

LIBRARY FOUNDATION OF LOS ANGELES

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 8 – Permanently Restricted Net Assets (Continued)

The Dean Hansell Endowed Fund is being 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.

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, 2015 AND 2014

NOTE 9 – 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 employs a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

The Foundation executed an advisory services agreement with Commonfund's Strategic Solutions program in February 2014. 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.

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, 2015 and 2014.

Amounts Appropriated for Expenditure

The amount appropriated for expenditure during the year ended June 30, 2015 was \$462,410 from the Board Directed Endowment fund and \$572,137 from Donor Designated Endowment funds. These amounts are reflected in the accompanying statement of activities within net assets released from restriction/designation.

LIBRARY FOUNDATION OF LOS ANGELES

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 9 – 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, 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
	<u>—</u>	<u>6,541,862</u>	<u>11,438,713</u>	<u>17,980,575</u>
Total endowment funds	<u>\$ 16,670,684</u>	<u>\$ 6,541,862</u>	<u>\$ 11,438,713</u>	<u>\$ 34,651,259</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2014:				
Board-designated	\$ 17,013,501	\$ —	\$ —	\$ 17,013,501
Donor-designated:				
Temporarily restricted	—	6,701,637	—	6,701,637
Permanently restricted	—	—	10,736,301	10,736,301
	<u>—</u>	<u>6,701,637</u>	<u>10,736,301</u>	<u>17,437,938</u>
Total endowment funds	<u>\$ 17,013,501</u>	<u>\$ 6,701,637</u>	<u>\$ 10,736,301</u>	<u>\$ 34,451,439</u>

LIBRARY FOUNDATION OF LOS ANGELES

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 9 – Endowment (Continued)

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	<u>123,228</u>	<u>118,902</u>	<u>–</u>	<u>242,130</u>
Contributions	<u>–</u>	<u>293,458</u>	<u>702,412</u>	<u>995,870</u>
Amounts appropriated for expenditure	(466,045)	(572,135)	–	(1,038,180)
End of year	<u>\$ 16,670,684</u>	<u>\$ 6,541,862</u>	<u>\$ 11,438,713</u>	<u>\$ 34,651,259</u>

Changes in endowment net assets for the year ended June 30, 2014 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning of year	\$ 14,909,629	\$ 4,569,818	\$ 10,386,301	\$ 29,865,748
Investment return:				
Interest and dividends	339,205	394,839	–	734,044
Net appreciation	<u>1,947,105</u>	<u>2,266,456</u>	<u>–</u>	<u>4,213,561</u>
Total investment return	<u>2,286,310</u>	<u>2,661,295</u>	<u>–</u>	<u>4,947,605</u>
Contributions	<u>250,000</u>	<u>–</u>	<u>350,000</u>	<u>600,000</u>
Amounts appropriated for expenditure	(432,438)	(529,476)	–	(961,914)
End of year	<u>\$ 17,013,501</u>	<u>\$ 6,701,637</u>	<u>\$ 10,736,301</u>	<u>\$ 34,451,439</u>

LIBRARY FOUNDATION OF LOS ANGELES

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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, 2015 and 2014 amounted to approximately \$27,000 and \$25,000, 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, 2015 and 2014, 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 \$59,632 and \$41,210 in 2015 and 2014, 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, 2015 AND 2014

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, 2015 and 2014.

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, 2015 and 2014:

	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	2,043,877	—	2,043,877	—
	<u>37,313,067</u>	<u>3,230,268</u>	<u>34,082,799</u>	<u>—</u>
Interests in charitable remainder trusts	446,842	—	—	446,842
	<u>\$ 37,759,909</u>	<u>\$ 3,230,268</u>	<u>\$ 34,082,799</u>	<u>\$ 446,842</u>

LIBRARY FOUNDATION OF LOS ANGELES

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 12 – Fair Value Measurements (Continued)

	Total Fair Value	Assets at Fair Value as of June 30, 2014		
		Level 1	Level 2	Level 3
Investments:				
US Treasury bonds	\$ 121,735	\$ 121,735	\$ —	\$ —
Corporate bonds-domestic	1,602,666	1,602,666	—	—
Mortgage notes	1,030,365	1,030,365	—	—
Foreign bonds	444,806	444,806	—	—
Equity funds	21,202,239	—	21,202,239	—
Fixed income	7,548,803	—	7,548,803	—
Hedge fund strategies	3,436,505	—	3,436,505	—
Real assets	1,663,892	—	1,663,892	—
	<u>37,051,011</u>	<u>3,199,572</u>	<u>33,851,439</u>	<u>—</u>
Interests in charitable remainder trusts	464,213	—	—	464,213
	<u>\$ 37,515,224</u>	<u>\$ 3,199,572</u>	<u>\$ 33,851,439</u>	<u>\$ 464,213</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.