Library Foundation of Los Angeles

Providing Support for the Los Angeles Public Library

Financial Statements
June 30, 2011 and 2010

CONTENTS

WINDES & MCCLAUGHRY
ACCOUNTANCY CORPORATION
Certified Public Accountants & Consultants
EXCEEDING EXPECTATIONS SINCE 1926

Landmark Square
111 West Ocean Boulevard
Twenty-Second Floor
Long Beach, CA 90802

Mailing Address:
Post Office Box 87
Long Beach, CA 90801-0087

T: (562) 435-1191
F: (562) 495-1665

www.windes.com

Other Offices:
Irvine
Los Angeles
Torrance

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, 2011 and 2010, 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 Foundation'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, 2011 and 2010, 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.

Windes & McClaughry

Long Beach, California
September 16, 2011

LIBRARY FOUNDATION OF LOS ANGELES

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30, 2011	June 30, 2010
Cash and cash equivalents	$ 4,085,344	$ 4,302,980
Investments	25,284,723	20,564,357
Pledges receivable	330,877	1,572,337
Library store inventory	95,753	76,324
Furniture, equipment, and improvements, net	43,224	55,111
Interests in charitable remainder trusts	372,502	361,460
Other receivables	9,121	12,754
TOTAL ASSETS	$ 30,221,544	$ 26,945,323

LIABILITIES AND NET ASSETS

	2011	2010
LIABILITIES		
Accounts payable	$ 90,988	$ 93,423
Accrued expenses	55,361	54,468
	146,349	147,891
COMMITMENTS (Notes 8 and 9)		
NET ASSETS		
Unrestricted:		
Undesignated	1,803,700	1,242,168
Library store	124,847	124,588
	1,928,547	1,366,756
Board-directed endowment	11,331,435	9,671,453
	13,259,982	11,038,209
Temporarily restricted:		
Specific purpose	2,861,926	3,854,448
Endowment	3,566,986	1,518,474
	6,428,912	5,372,922
Permanently restricted – endowment	10,386,301	10,386,301
Total Net Assets	30,075,195	26,797,432
TOTAL LIABILITIES AND NET ASSETS	$ 30,221,544	$ 26,945,323

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, 2011

	Unrestricted				
	Undesignated	Board Directed	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITY:					
SUPPORT AND REVENUE					
Contributions	$ 1,570,152		$ 1,719,382		$ 3,289,534
Fund-raising events – net of direct expenses of $124,682	159,410		68,107		227,517
Store revenues, net of discounts	378,987				378,987
	2,108,549		1,787,489		3,896,038
NET ASSETS RELEASED FROM RESTRICTIONS	3,071,053		(3,071,053)		
TOTAL SUPPORT AND REVENUE	5,179,602		(1,283,564)		3,896,038
EXPENSES					
Program Services:					
Adopt-a-branch and computer aides	562,646				562,646
Adult literacy	340,245				340,245
Technology and library improvements	381,525				381,525
Cultural programs	541,263				541,263
Exhibitions	50,390				50,390
Children’s programs	461,149				461,149
Library awareness and collections	432,054				432,054
Teen programs	587,157				587,157
Library Store	378,728				378,728
Total Program Services	3,735,157				3,735,157
Supporting Services:					
General and administrative	658,043				658,043
Fund-raising	557,693				557,693
Total Supporting Services	1,215,736				1,215,736
TOTAL EXPENSES	4,950,893				4,950,893
CHANGE IN NET ASSETS FROM OPERATIONS	228,709		(1,283,564)		(1,054,855)
NONOPERATING ACTIVITY:					
Interest and dividends	7,439	$ 293,997	349,277		650,713
Net realized and unrealized gain on investments	25,643	1,665,985	1,979,235		3,670,863
Change in value of charitable remainder trusts			11,042		11,042
	33,082	1,959,982	2,339,554		4,332,618
TRANSFERS	300,000	(300,000)			
CHANGE IN NET ASSETS	561,791	1,659,982	1,055,990		3,277,763
BEGINNING NET ASSETS	1,366,756	9,671,453	5,372,922	$10,386,301	26,797,432
ENDING NET ASSETS	$ 1,928,547	$11,331,435	$ 6,428,912	$10,386,301	$30,075,195

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, 2010

	Unrestricted				
	Undesignated	Board Directed	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITY:					
SUPPORT AND REVENUE					
Contributions	$ 924,094		$ 1,783,364	$ 1,041,638	$ 3,749,096
Fund-raising events – net of direct expenses of $258,717	244,543		577,441		821,984
Store revenues, net of discounts	377,459				377,459
	1,546,096		2,360,805	1,041,638	4,948,539
NET ASSETS RELEASED FROM RESTRICTIONS	2,442,723		(2,442,723)		
TOTAL SUPPORT AND REVENUE	3,988,819		(81,918)	1,041,638	4,948,539
EXPENSES					
Program Services:					
Adopt-a-branch and computer aides	305,388				305,388
Adult literacy	197,409				197,409
Technology and library improvements	509,628				509,628
Cultural programs	422,807				422,807
Exhibitions	95,582				95,582
Children’s programs	376,727				376,727
Library awareness and collections	142,637				142,637
Teen programs	534,548				534,548
Library Store	376,592				376,592
Total Program Services	2,961,318				2,961,318
Supporting Services:					
General and administrative	462,038				462,038
Fund-raising	481,398				481,398
Total Supporting Services	943,436				943,436
TOTAL EXPENSES	3,904,754				3,904,754
CHANGE IN NET ASSETS FROM OPERATIONS	84,065		(81,918)	1,041,638	1,043,785
NONOPERATING ACTIVITY:					
Interest and dividends	76,480	$ 176,664	96,415		349,559
Net realized and unrealized gain on investments	443,081	1,125,161	615,792		2,184,034
Change in value of charitable remainder trusts			30,579		30,579
	519,561	1,301,825	742,786		2,564,172
CHANGE IN NET ASSETS	603,626	1,301,825	660,868	1,041,638	3,607,957
BEGINNING NET ASSETS	763,130	8,369,628	4,712,054	9,344,663	23,189,475
ENDING NET ASSETS	$ 1,366,756	$ 9,671,453	$ 5,372,922	$10,386,301	$26,797,432

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, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 3,277,763	$ 3,607,957
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	22,769	30,879
Net realized and unrealized (gain) loss on investments	(3,670,863)	(2,184,034)
Contributions for long-term investments	(1,000,000)	(1,400,100)
Change in value of charitable remainder trusts	(11,042)	(30,579)
Changes in operating assets and liabilities:		
Pledges receivable	1,241,460	439,420
Library store inventory	(19,429)	2,542
Other receivables	3,633	(4,269)
Accounts payable	(2,435)	(45,385)
Accrued expenses	893	(7,769)
Net Cash Provided By (Used In) Operating Activities	(157,251)	408,662
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale or maturity of investments	608,533	23,259,926
Purchases of investments	(1,658,036)	(25,596,941)
Purchases of equipment	(10,882)	(5,614)
Net Cash Used In Investing Activities	(1,060,385)	(2,342,629)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions for long-term investments	1,000,000	1,400,100
Net Cash Provided By Financing Activities	1,000,000	1,400,100
NET CHANGE IN CASH AND CASH EQUIVALENTS	(217,636)	(533,867)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	4,302,980	4,836,847
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	$ 4,085,344	$ 4,302,980

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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. The funds also include investment earnings on restricted endowments that are designated to support purposes specified in those endowment agreements. These amounts are not available for unrestricted purposes.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation (Continued)

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/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 (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.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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, 2011 and throughout the year, the Foundation has maintained cash in its financial institutions in excess of federally insured limits.

Investments 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.

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.

Investment Income Recognition

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.

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.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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 lives of five years. Fixed assets 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 5.) In addition, the Foundation also expends unrestricted net assets for program services. (See program service expenses on the statement of activities and the supplemental schedules of expenses on page 21.)

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 state purposes is four years.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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 $77,793 and $58,759 of donated goods and professional services for the years ended June 30, 2011 and 2010, 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.

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 $66,000 and $159,000 for the years ended June 30, 2011 and 2010, respectively.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 16, 2011, the date the financial statements were available to be issued.

NOTE 2 – Investments

Investments consist of the following:

	June 30, 2011	June 30, 2010
Institutional mutual funds:		
Global bond fund	$ 2,462,305	$ 2,161,060
Core equity fund	12,855,736	9,864,206
International equity fund	2,584,945	2,047,618
Core plus bond fund	7,381,737	6,491,473
	$ 25,284,723	$ 20,564,357

The Foundation's investments are pooled for investment management purposes. The fair value of the Foundation's investments is estimated based on the NAV reported by the management of the investment funds.

Investment return consists of the following:

	For the Year Ended June 30, 2011	For the Year Ended June 30, 2010
Interest and dividends	$ 650,713	$ 349,559
Net realized and unrealized gain on investments	3,670,863	2,184,034
	$ 4,321,576	$ 2,533,593

Investment management fees totaled approximately $65,000 and $57,000 for the years ended June 30, 2011 and 2010, respectively.

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, 2011	June 30, 2010
Due in one year or less	$ 330,877	$ 1,479,837
Due after one year through five years		92,500
Pledges receivable	$ 330,877	$ 1,572,337

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 $372,502 and $361,460 at June 30, 2011 and 2010, respectively, representing the portion of the charitable remainder trusts for which the Foundation is the designated beneficiary.

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, 2011	June 30, 2010
Adopt-a-branch and computer aides	$ 593,416	$ 296,009
Adult literacy	305,192	229,841
Technology and library improvements	300,768	489,286
Cultural programs	340,681	304,007
Exhibitions	31,288	78,817
Children's programs	436,694	364,900
Library awareness and collections	482,911	120,897
Teen programs	580,103	558,966
	$ 3,071,053	$ 2,442,723

NOTE 6 – Permanently Restricted Net Assets

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

	June 30, 2011	June 30, 2010
The Caroline Singleton Adult Literacy Endowment	$ 5,062,352	$ 5,062,352
The National Endowment for Humanities	3,000,000	3,000,000
The Thornton Endowment	1,000,000	1,000,000
The Gregory Peck Literary Endowment	823,949	823,949
The Gluck Endowment	500,000	500,000
	$10,386,301	$10,386,301

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.

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 Public Library in perpetuity, and to honor Mr. Peck for his work on behalf of the Los Angeles Public Library.

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.

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.

NOTE 7 – 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 endowment funds are pooled and invested in domestic and international stock fund of funds and domestic and international fixed income fund of fund mandates.

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 its endowment to grow sufficiently to preserve or increase the purchasing power of its endowments.

NOTE 7 – Endowment (Continued)

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 were reported in unrestricted net assets as of June 30, 2010 for approximately $40,000 and were restored during the year ended June 30, 2011.

Amounts Appropriated for Expenditure

The amount appropriated for expenditure as shown in the changes in endowment net assets below was $300,000 from the Board Directed Endowment and $280,000 from Donor Designated Endowments. Because the $280,000 was transferred within the temporarily restricted net asset category, the transferring and receiving accounts offset one another and therefore it does not appear on the Statement of Activities.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2011:				
Board-designated	$ 11,331,435			$ 11,331,435
Donor-designated		$ 3,566,986	$ 10,386,301	13,953,287
Total endowment funds	$ 11,331,435	$ 3,566,986	$ 10,386,301	$ 25,284,722
June 30, 2010:				
Board-designated	$ 9,671,453			$ 9,671,453
Donor-designated	(40,403)	$ 1,518,474	$ 10,386,301	11,864,372
Total endowment funds	$ 9,631,050	$ 1,518,474	$ 10,386,301	$ 21,535,825

NOTE 7 – Endowment (Continued)

Changes in endowment net assets for the year ended June 30, 2011 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of year	$ 9,631,050	$ 1,518,474	$ 10,386,301	$ 21,535,825
Investment return:				
Interest and dividends	308,757	349,277		658,034
Net appreciation	1,691,628	1,979,235		3,670,863
Total investment return	2,000,385	2,328,512		4,328,897
Amounts appropriated for expenditure	(300,000)	(280,000)		(580,000)
End of year	$ 11,331,435	$ 3,566,986	$ 10,386,301	$ 25,284,722

Changes in endowment net assets for the year ended June 30, 2010 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of year	$ 7,809,084	$ 806,267	$ 9,344,663	$ 17,960,014
Investment return:				
Interest and dividends	253,724	96,415		350,139
Net appreciation	1,568,242	615,792		2,184,034
Total investment return	1,821,966	712,207		2,534,173
Contributions			1,041,638	1,041,638
End of year	$ 9,631,050	$ 1,518,474	$ 10,386,301	$ 21,535,825

NOTE 8 – 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, 2011 and 2010 amounted to $20,392 and $20,140, respectively.

The Library provides office space at no charge to the Foundation. The Foundation has recorded in-kind contributions of $24,000 for each of the years ended June 30, 2011 and 2010 for the donated space. Such in-kind support is offset by like amounts included in expenses.

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 28% 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 $19,837 and $11,769 in 2011 and 2010, respectively.

Note 10 – Measure L

As a result of the City's fiscal crisis, the Library's budget was severely reduced, resulting in the Library closing two days a week for the first time in its120 year history. To help restore the budget and create a more reliable source of additional funding for the Library, Measure L, which amends the City charter to increase the Library's share of Los Angeles' property tax revenues, was placed on the ballot in March. The Foundation was a substantial supporter of Measure L, contributing $205,866 to its successful passage. This amount is included in Library Awareness expenses in the accompanying statement of activities for the year ended June 30, 2011. Funding was provided by earnings from the Board Directed Endowment. No current donor funds were used for Measure L support.

NOTE 11 – 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.

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

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.

NOTE 11 – Fair Value Measurements (Continued)

The following table summarizes by fair value hierarchy level the valuation of the Foundation's assets which are recorded in the accompanying financial statements at fair value on a recurring basis:

	Total Fair Value	Fair Value Hierarchy Ranking		
		Level 1	Level 2	Level 3
At June 30, 2011:				
Investments:				
Global bond fund	$ 2,462,305		$ 2,462,305	
Core equity fund	12,855,736		12,855,736	
International equity fund	2,584,945		2,584,945	
Core plus bond fund	7,381,737		7,381,737	
Contributions receivable from charitable remainder trusts	372,502			$ 372,502
	$ 25,657,225	None	$ 25,284,723	$ 372,502
At June 30, 2010:				
Investments:				
Global bond fund	$ 2,161,060		$ 2,161,060	
Core equity fund	9,864,206		9,864,206	
International equity fund	2,047,618		2,047,618	
Core plus bond fund	6,491,473		6,491,473	
Contributions receivable from charitable remainder trusts	361,460			$ 361,460
	$ 20,925,817	None	$ 20,564,357	$ 361,460

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.

LIBRARY FOUNDATION OF LOS ANGELES

SUPPLEMENTAL INFORMATION
SCHEDULES OF EXPENSES

	For the Year Ended June 30, 2011	2010
PROGRAM SERVICES		
Collateral material and promotions	$ 332,284	$ 189,517
Computer equipment	98,298	282,873
Library collections	627,874	571,557
Events	91,365	82,526
Furniture and fixtures	67,397	42,859
Seminars, exhibits, and workshops	511,081	404,884
Staff for program services	882,481	578,239
Administrative support	529,657	426,886
Capital improvements	197,935	5,385
Donated goods and services	18,057	
	3,356,429	2,584,726
Library Store:		
Cost of goods sold	214,319	213,243
Salaries and payroll tax	124,248	125,949
Office administration and supplies	13,994	10,243
Rent	20,392	20,140
Other	5,775	7,017
	378,728	376,592
Total Program Services	3,735,157	2,961,318
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and payroll tax	251,259	196,272
Collateral materials and printing	7,350	1,283
Office administration and supplies	82,170	83,438
Consulting and other outside services	130,971	115,717
Other	186,293	65,328
Total General and Administrative Expenses	658,043	462,038
FUND-RAISING EXPENSES		
Salaries and payroll tax	510,159	420,854
Other fund-raising expenses	47,534	60,544
Total Fund-Raising Expenses	557,693	481,398
TOTAL EXPENSES	$ 4,950,893	$ 3,904,754

See Independent Auditors' Report