

FAIRFAX LIBRARY FOUNDATION

FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

KOSITZKA, WICKS & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS



Table of Contents

Independent Auditor's Report

Financial Statements

Statements of Financial Position	1
Statements of Activities	2 - 3
Statements of Functional Expenses	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 20



KOSITZKA, WICKS & COMPANY
Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Fairfax Library Foundation

We have audited the accompanying financial statements of **Fairfax Library Foundation** (a not-for-profit corporation) 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.

Auditor's 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 of 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 auditor's 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 **Fairfax Library Foundation** as of June 30, 2015 and 2014, and the change 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.

Kositzka, Wicks and Company

Alexandria, Virginia
January 27, 2016

Fairfax Library Foundation

Statements of Financial Position June 30,

2015

2014

Assets

Current assets

Cash and cash equivalents	\$ 415,613	\$ 525,035
Certificate of deposit	73,436	73,106
Pledges receivable	14,301	8,371
Prepaid expenses and other assets	38,218	13,921
	<u>541,568</u>	<u>620,433</u>

Investments - endowment funds 4,391,127 4,331,683

Property and equipment, net of accumulated depreciation 908 3,113

Total assets \$ 4,933,603 \$ 4,955,229

Liabilities and net assets

Current liabilities

Accounts payable and accrued expenses \$ 15,592 \$ 32,269

Net assets

Unrestricted	2,092,243	2,117,539
Temporarily restricted	878,208	918,824
Permanently restricted	1,947,560	1,886,597
Total net assets	<u>4,918,011</u>	<u>4,922,960</u>

Total liabilities and net assets \$ 4,933,603 \$ 4,955,229

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Fairfax Library Foundation

Statement of Activities for the year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue				
Contributions	\$ 134,089	\$ 81,572	\$ 60,963	\$ 276,624
In-kind contributions	221,691	11,268	-	232,959
Special event (net of direct expenses of \$25,931)	103,840	26,186	-	130,026
Sales revenue	7,326	-	-	7,326
Investment income	49,492	23,317	-	72,809
Net assets released from restrictions	182,959	(182,959)	-	-
Total revenue	<u>699,397</u>	<u>(40,616)</u>	<u>60,963</u>	<u>719,744</u>
Expenses				
Program services	575,557	-	-	575,557
Management and general	88,828	-	-	88,828
Fundraising	60,308	-	-	60,308
Total expenses	<u>724,693</u>	<u>-</u>	<u>-</u>	<u>724,693</u>
Change in net assets	(25,296)	(40,616)	60,963	(4,949)
Net assets, beginning of year	<u>2,117,539</u>	<u>918,824</u>	<u>1,886,597</u>	<u>4,922,960</u>
Net assets, end of year	<u>\$ 2,092,243</u>	<u>\$ 878,208</u>	<u>\$ 1,947,560</u>	<u>\$ 4,918,011</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Fairfax Library Foundation

Statement of Activities for the year ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Contributions	\$ 130,974	\$ 108,141	\$ 116,741	\$ 355,856
In-kind contributions	200,962	9,973	-	210,935
Special event (net of direct expenses of \$14,832)	72,941	32,280	-	105,221
Sales revenue	9,294	-	-	9,294
Investment income	307,526	301,712	-	609,238
Net assets released from restrictions	145,580	(145,580)	-	-
Total revenue	867,277	306,526	116,741	1,290,544
Expenses				
Program services	520,270	-	-	520,270
Management and general	84,065	-	-	84,065
Fundraising	61,614	-	-	61,614
Total expenses	665,949	-	-	665,949
Change in net assets	201,328	306,526	116,741	624,595
Net assets, beginning of year	1,916,211	612,298	1,769,856	4,298,365
Net assets, end of year	\$ 2,117,539	\$ 918,824	\$ 1,886,597	\$ 4,922,960

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Fairfax Library Foundation

Statement of Functional Expenses for the year ended June 30, 2015

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Program benefits awarded	\$ 292,981	\$ -	\$ -	\$ 292,981
Salaries and benefits	179,740	20,954	20,953	221,647
Contracted staff	52,595	34,973	22,595	110,163
Graphics and printing	10,110	3,446	7,430	20,986
Fees and other charges	27,909	669	1,620	30,198
Accounting service	1,600	14,851	-	16,451
Office supplies and expense	54	1,250	-	1,304
Depreciation	735	735	735	2,205
Computer maintenance and supplies	7,891	2,392	3,699	13,982
Meetings and recruitment	275	443	350	1,068
Dues and membership	-	745	350	1,095
Training	103	540	230	873
Travel	334	330	115	779
Postage	-	2,638	2,031	4,669
Insurance	1,111	2,067	-	3,178
Licenses and permits	-	297	200	497
Telephone	-	2,379	-	2,379
Advertising	103	-	-	103
Other	16	119	-	135
Total functional expenses	<u><u>\$ 575,557</u></u>	<u><u>\$ 88,828</u></u>	<u><u>\$ 60,308</u></u>	<u><u>\$ 724,693</u></u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Fairfax Library Foundation

Statement of Functional Expenses for the year ended June 30, 2014

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Program benefits awarded	\$ 272,783	\$ -	\$ -	\$ 272,783
Salaries and benefits	163,760	18,442	18,442	200,644
Contracted staff	46,762	31,095	20,089	97,946
Graphics and printing	207	3,541	8,207	11,955
Fees and other charges	28,235	404	826	29,465
Accounting service	-	17,310	-	17,310
Office supplies and expense	59	955	56	1,070
Depreciation	315	316	316	947
Computer maintenance and supplies	3,632	2,853	4,006	10,491
Meetings and recruitment	590	562	310	1,462
Dues and membership	-	375	865	1,240
Donor cultivation	-	-	63	63
Training	1,800	1,045	1,512	4,357
Travel	630	271	79	980
Postage	-	2,461	6,043	8,504
Insurance	1,046	1,413	-	2,459
Licenses and permits	-	25	800	825
Telephone	-	2,429	-	2,429
Other	451	568	-	1,019
Total functional expenses	<u>\$ 520,270</u>	<u>\$ 84,065</u>	<u>\$ 61,614</u>	<u>\$ 665,949</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Fairfax Library Foundation

Statements of Cash Flows for the years ended June 30,

2015

2014

Cash flows from operating activities

Change in net assets	\$ (4,949)	\$ 624,595
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation	2,205	947
Unrealized and realized gain on investments	(741)	(547,575)
(Increase) decrease in operating assets		
Pledges receivable	(5,930)	(474)
Prepaid expenses and other assets	(24,297)	(5,630)
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	(16,677)	(20,723)
Net cash provided by (used in) operating activities	<u>(50,389)</u>	<u>51,140</u>

Cash flows from investing activities

Proceeds from sale of certificate of deposit	73,380	73,106
Purchase of certificates of deposit	(73,710)	(73,106)
Proceeds from sale of investments	293,167	3,905
Purchase of investments	(351,870)	(112,992)
Net cash used in investing activities	<u>(59,033)</u>	<u>(109,087)</u>

Net decrease in cash and cash equivalents

(109,422)

(67,947)

Cash and cash equivalents, beginning of year

525,035

592,982

Cash and cash equivalents, end of year

\$ 415,613

\$ 525,035

Supplemental disclosure of cash flow information

Cash paid for interest

\$ -

\$ -

Income taxes paid

\$ -

\$ -

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Fairfax Library Foundation

Notes to Financial Statements June 30, 2015 and 2014

1. Organization

Fairfax Library Foundation (the Foundation), a not-for-profit corporation, was established in 1994 to provide supplementary support to the Fairfax County Public Library. The Foundation, while reinforcing the need for continued and increased public support for the library, serves as a catalyst for attracting private funding from individuals, businesses, organizations and civic groups to enhance library services for our community. The Foundation is supported primarily through donor and in-kind contributions. The Foundation uses contributions to support the library in areas of focus. The Foundation uses contributions to fund the purchase of books and materials for the 23 library branches. Expanding the collection of resources allows the library to maintain the most up-to-date materials, as well as to provide new digital, print, and other non-print materials to keep up with demand. The Foundation funds the Ready to Read Early Literacy Outreach, a program which brings the first essential skills of reading to preschool-aged children. Preschoolers in childcare centers or Head Start classrooms are introduced to the joys of reading by a literacy outreach representative who visits the children for story time. Following the reading session, picture books are given both to the children and their caregivers to extend the benefits of early literacy by incorporating books into everyday life. The program reaches children who are unable or who are not taken by their caregivers to the library. Presentations for the library are supported by the Foundation, including the Fall For The Book literary festival and the FCPL Summer Reading Program, among others. The importance of reading, literacy and the library are brought to the attention of the community through the Foundation. The Foundation also supports Changing Lives Through Literature, a program which is an alternative to formal court action for first-time juvenile offenders and is used in conjunction with probation and parole. The program uses the power of literature to transform lives by helping participants learn about themselves, gaining insight about their own lives and behavior. Through reading and group discussions, the program rehabilitates offenders by building self-esteem, encouraging critical thinking, facilitating an understanding of how one's actions impact others, and teaching offenders that they are not alone with their troubles. The Foundation is also proud to fund academic scholarships (undergraduate and graduate) and continuing education scholarships. These scholarships are open to employees and volunteers of Fairfax County Public Library. Continuing Education scholarships are awarded semi-annually and provide opportunities for current library employees or volunteers that are not enrolled in a formal degree program to continue their education (through classes, conferences, and other professional enhancement courses) to foster the professional development of the Fairfax County Public Library system team. Masters of Library Sciences scholarships are merit-based and available to individuals pursuing a master's degree in library science at an American Library Association (ALA) accredited school. Eligible applicants must be enrolled or have been accepted for enrollment by an ALA-accredited school. Undergraduate academic scholarships are merit-based awards available to any current employee or volunteer with Fairfax County Public Library. In order to be eligible, an awardee may be asked to complete up to a maximum of 60 volunteer hours within a 12-month period. Fairfax Library Foundation is pleased to enrich the Fairfax County Public Library.

2. Significant accounting policies

Basis of accounting

The Foundation prepares its financial statements on the accrual basis of accounting. In accordance with this method of accounting, revenue is recognized in the period in which it is earned and expenses are recognized in the period in which they are incurred.

See independent auditor's report.

Fairfax Library Foundation

Notes to Financial Statements June 30, 2015 and 2014

2. Significant accounting policies (continued)

Revenue recognition

All contributions with donor-imposed restrictions are recognized as temporarily or permanently restricted support that increases those net asset classes. When temporary restrictions are met, the contributions are transferred to unrestricted support. Contributions with no donor-imposed restrictions are recognized immediately as unrestricted support.

Cash and cash equivalents

Short-term, highly liquid investments with an original maturity of three months or less, including money market funds, are considered to be cash equivalents. Cash and cash equivalents held in investment accounts are excluded from cash and cash equivalents.

At year-end and throughout the year, the Foundation's cash balances were deposited in several banks which may exceed federally insured limits. FDIC insurance on interest bearing accounts is \$250,000 per depositor, per insured bank. The Foundation has not experienced any losses on its cash equivalents and management does not believe this results in any significant credit risk.

Pledges receivable

Pledges receivable are reported at full value as all amounts are deemed fully collectible. Pledges receivable as of June 30, 2015 and 2014 are expected to be collected within one year. The Foundation considers pledges receivable to be fully collectible. Accordingly, no allowance for doubtful accounts is required.

Property and equipment

It is the Foundation's policy to capitalize property and equipment over \$500. Property and equipment are carried at cost or estimated fair market value, if donated. Equipment is depreciated using the straight-line method over estimated lives of three to five years. Depreciation expense for the years ended June 30, 2015 and 2014 was \$2,205 and \$947, respectively.

Investments

Investments are carried at their fair market values based on publicly available market data obtained from services independent of the Foundation. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

See independent auditor's report.

Fairfax Library Foundation

Notes to Financial Statements June 30, 2015 and 2014

2. Significant accounting policies (continued)

Other financial assets and liabilities

Financial assets with carrying values approximating fair value include cash and cash equivalents, certificate of deposit, pledges receivable, and prepaid expenses and other assets. Financial liabilities with carrying values approximating fair value include accounts payable and accrued expenses. The carrying value of these financial assets and liabilities approximates fair value due to their short maturities and any associated interest rates approximate current market rates.

Donated services and facilities

In-kind contributions from the Fairfax County Public Library for all salaries and benefits have been recorded under expenses relating to program services, management and general and fundraising at fair value. The Foundation receives rent-free use of office space from Fairfax County, Virginia. No in-kind contribution for rent is recorded since there is no reliable basis for measurement. Donated property is reflected as revenue at the fair market value of the property on date of donation. Other donated services received by the Foundation are recorded at fair value. Donations in-kind are detailed at Note 7 of these financial statements.

Concentrations of credit and market risk

Financial instruments that potentially expose the Foundation to concentrations of credit and market risk consist primarily of cash equivalents and investments.

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect amounts reported in future statements of activities. Management believes that the Foundation's investments do not represent significant concentrations of market risk as the Foundation's investment portfolio is adequately diversified among issuers.

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

See independent auditor's report.

Fairfax Library Foundation

Notes to Financial Statements June 30, 2015 and 2014

2. Significant accounting policies (continued)

Income taxes

The Fairfax Library Foundation is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as an organization that is not a private foundation. The Foundation did not have a liability for unrelated business income for the years ended June 30, 2015 and 2014.

The material jurisdictions subject to potential examination by taxing authorities are the U.S. and Virginia. The Board does not believe that the ultimate outcome of any future examinations of open tax years will have a material impact on the Foundation's results of operations. Tax years that remain subject to examination by the IRS are 2012 through 2015.

3. Cash and cash equivalents

Cash and cash equivalents as of June 30, 2015 and 2014, consisted of the following:

	<u>2015</u>	<u>2014</u>
Checking	\$ 34,787	\$ 52,598
Money market funds	<u>380,826</u>	<u>472,437</u>
	<u>\$ 415,613</u>	<u>\$ 525,035</u>
Amount covered by Federal Deposit Insurance Corporation (FDIC)	<u>\$ 496,687</u>	<u>\$ 582,149</u>

4. Certificate of deposit

The Foundation held one certificate of deposit as of June 30, 2015. The 12 month certificate carries an interest rate of .45% through April 16, 2016. The Foundation held one certificate of deposit as of June 30, 2014. The 12 month certificate carried an interest rate of .45% through April 16, 2015. The certificates of deposit are reported at cost plus accrued interest which approximates fair market value.

See independent auditor's report.

Fairfax Library Foundation

Notes to Financial Statements June 30, 2015 and 2014

5. Investments

Investments as of June 30, 2015 and 2014, consisted of the following:

	<u>2015</u>	<u>2014</u>
Cash and money market funds	\$ 278,363	\$ 388,753
Mutual funds	4,112,764	3,942,930
	<u>\$ 4,391,127</u>	<u>\$ 4,331,683</u>

Investment income for the years ended June 30, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Realized and unrealized gains	\$ 741	\$ 547,575
Interest and dividend income	72,068	61,663
	<u>\$ 72,809</u>	<u>\$ 609,238</u>

Investment fees of \$26,772 and \$28,235 were paid for the years ended June 30, 2015 and 2014, respectively, and are included in fees and other charges on the accompanying statements of functional expenses.

See independent auditor's report.

Fairfax Library Foundation

Notes to Financial Statements June 30, 2015 and 2014

6. Property and equipment

Property and equipment for the years ended June 30, 2015 and 2014 consisted of the following:

	2015			Useful life
	Cost	Accumulated depreciation	Depreciation expense	
Furniture and fixtures	\$ 3,240	\$ 3,240	\$ -	5 years
Computer equipment and software	19,821	18,913	2,205	3-5 years
Total	<u>\$ 23,061</u>	<u>\$ 22,153</u>	<u>\$ 2,205</u>	

	2014			Useful life
	Cost	Accumulated depreciation	Depreciation expense	
Furniture and fixtures	\$ 3,240	\$ 3,240	\$ -	5 years
Computer equipment and software	19,821	16,708	947	3-5 years
Total	<u>\$ 23,061</u>	<u>\$ 19,948</u>	<u>\$ 947</u>	

7. In-kind contributions

In-kind contributions for the years ended June 30, 2015 and 2014 consisted of the following:

	2015	2014
Salaries and benefits	\$ 221,647	\$ 200,644
Books	11,312	10,291
	<u>\$ 232,959</u>	<u>\$ 210,935</u>

The Foundation has an agreement with the Fairfax County Public Library whereby the library will provide salaries and benefits as an in-kind contribution. For the years ended June 30, 2015 and 2014, this contribution totaled \$221,647 and \$200,644, respectively.

8. Temporarily restricted net assets

During 1996, the Foundation received a bequest from a trust (Macleod fund). Additional donations received are added to the temporarily restricted balance. This contribution was donor-restricted for the purchase of recorded books. The Board has designated that the Macleod fund be held in an endowment fund and distributed in accordance with the spending policy described in Note 10. At June 30, 2015 and 2014, the donor-restricted amount was \$364,637 and \$397,165, respectively.

See independent auditor's report.

Fairfax Library Foundation

Notes to Financial Statements June 30, 2015 and 2014

8. Temporarily restricted net assets (continued)

A summary of activity in temporarily restricted net assets as of June 30, 2015 was as follows:

	Beginning Balance	Revenue	Releases	Ending Balance
Program activities:				
Purchase of recorded books (Macleod fund)	\$ 397,165	\$ -	\$ (32,528)	\$ 364,637
FCPL grants	-	27,085	(27,085)	-
Scholarships	38,236	2,000	(29,904)	10,332
FCPL Branches				
Access Services	15,460	2,864	-	18,324
Oakton Library	5,988	1,534	-	7,522
Dolley Madison	-	762	-	762
Martha Washington	-	25,865	-	25,865
Thomas Jefferson	-	8,315	-	8,315
Tysons-Pimmit	-	2,505	-	2,505
Virginia Room	-	3,540	-	3,540
Changing Lives Through Literature	-	10,050	(10,050)	-
Early literature	-	1,000	(1,000)	-
Jubilee - 2015	32,280	-	(32,280)	-
Jubilee - 2016	-	26,186	-	26,186
	<u>489,129</u>	<u>111,706</u>	<u>(132,847)</u>	<u>467,988</u>
Portion of donor-restricted endowments subject to a time restriction under UPMIFA	429,695	23,317	(42,792)	410,220
Total temporarily restricted net assets	<u>\$ 918,824</u>	<u>\$ 135,023</u>	<u>\$ (175,639)</u>	<u>\$ 878,208</u>

See independent auditor's report.

Fairfax Library Foundation

Notes to Financial Statements June 30, 2015 and 2014

8. Temporarily restricted net assets (continued)

A summary of activity in temporarily restricted net assets as of June 30, 2014 was as follows:

	Beginning Balance	Revenue	Releases	Ending Balance
Program activities:				
Purchase of recorded books (Macleod fund)	\$ 392,296	\$ 37,008	\$ (32,139)	\$ 397,165
FCPL grants	-	46,983	(46,983)	-
Scholarships	40,197	21,500	(23,461)	38,236
FCPL Branches				
Access Services	10,000	5,460	-	15,460
Oakton Library	-	5,988	-	5,988
Changing Lives Through Literature	4,015	25	(4,040)	-
Early literature	-	1,150	(1,150)	-
Jubilee - 2015	-	32,280	-	32,280
	<u>446,508</u>	<u>150,394</u>	<u>(107,773)</u>	<u>489,129</u>
Portion of donor-restricted endowments subject to a time restriction under UPMIFA	165,790	301,712	(37,807)	429,695
Total temporarily restricted net assets	<u>\$ 612,298</u>	<u>\$ 452,106</u>	<u>\$ (145,580)</u>	<u>\$ 918,824</u>

9. Permanently restricted net assets

Permanently restricted net assets included the following:

	2015	2014
General Endowment	\$ 1,447,560	\$ 1,386,597
Children's Reading Program fund	500,000	500,000
	<u>\$ 1,947,560</u>	<u>\$ 1,886,597</u>

The General Endowment was established to enhance the services and resources of the Fairfax County Public Library in the 21st century. Donations may be given as a general contribution to the permanent endowment or may be directed to one of four areas within the permanent endowment: books, the virtual library, community programs or scholarships. For the years ended June 30, 2015 and 2014, the Campaign received \$60,963 and \$116,741 respectively, for the permanent endowment.

On May 24, 2002, a permanent endowment (Children's Reading Program fund) was established by The George Mason Friends, Inc., for the intended purpose of supporting the Children's Reading Program of the Fairfax Country Public Library. The Friends contributed \$500,000, and, once approved by the Friends, \$25,000 of earnings on the endowment will be expended annually for the Children's Reading Program.

See independent auditor's report.

Fairfax Library Foundation

Notes to Financial Statements June 30, 2015 and 2014

10. Endowment funds

The Foundation endowment funds consist of four individual funds established for a variety of purposes. The endowment funds include both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the Virginia Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effects of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity as well as board-designated funds. Under the policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately six percent annually. Actual returns in any given year may vary from this amount.

See independent auditor's report.

Fairfax Library Foundation

Notes to Financial Statements June 30, 2015 and 2014

10. Endowment funds (continued)

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments and to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy

The amounts appropriated for distribution by the Foundation vary for each fund. For the General endowment and FCPL Branches, the Foundation has a policy of appropriating for distribution each year four percent of the endowment funds' average fair value over the previous five calendar years. For the Macleod endowment, the Foundation has a policy of appropriating for distribution each year four percent of the endowment fund's average fair value over the previous five calendar years. A distribution of three percent of four percent of the average value of the Children's Reading Program fund over the previous five calendar years will be made each year to cover administrative expenses. No additional appropriations will be made from the Children's Reading Program fund until donors agree that contributions of \$25,000 annually should begin. In establishing these policies, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of two percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

See independent auditor's report.

Fairfax Library Foundation

Notes to Financial Statements June 30, 2015 and 2014

10. Endowment funds (continued)

Endowment net asset composition by type of fund

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

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds				
General fund	\$ -	\$ 153,612	\$ 1,447,560	\$ 1,601,172
Children's Reading Program fund	-	256,608	500,000	756,608
Total donor-restricted endowment funds	-	410,220	1,947,560	2,357,780
Board-designated endowment funds				
Macleod fund	600,489	364,637	-	965,126
General fund	873,350	-	-	873,350
FCPL Branches	120,718	74,153	-	194,871
Total board-designated endowment funds	1,594,557	438,790	-	2,033,347
Total endowment funds	<u>\$ 1,594,557</u>	<u>\$ 849,010</u>	<u>\$ 1,947,560</u>	<u>\$ 4,391,127</u>
2014				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds				
General fund	\$ -	\$ 179,247	\$ 1,386,597	\$ 1,565,844
Children's Reading Program fund	-	250,448	500,000	750,448
Total donor-restricted endowment funds	-	429,695	1,886,597	2,316,292
Board-designated endowment funds				
Macleod fund	590,622	397,165	-	987,787
General fund	886,148	-	-	886,148
FCPL Branches	120,008	21,448	-	141,456
Total board-designated endowment funds	1,596,778	418,613	-	2,015,391
Total endowment funds	<u>\$ 1,596,778</u>	<u>\$ 848,308</u>	<u>\$ 1,886,597</u>	<u>\$ 4,331,683</u>

See independent auditor's report.

Fairfax Library Foundation

Notes to Financial Statements June 30, 2015 and 2014

10. Endowment funds (continued)

Changes in endowment net assets

The endowment net activity consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds as of June 30, 2013	\$ 1,327,396	\$ 568,086	\$ 1,769,856	\$ 3,665,338
Investment return				
Investment income	28,328	31,587	-	59,915
Net appreciation	262,080	285,495	-	547,575
Investment fees	(12,865)	(15,370)	-	(28,235)
Total investment return	<u>277,543</u>	<u>301,712</u>	<u>-</u>	<u>579,255</u>
Contributions to perpetual endowment	13,752	48,456	116,741	178,949
Amounts appropriated for expenditure	(21,913)	(69,946)	-	(91,859)
Endowment funds as of June 30, 2014	<u>1,596,778</u>	<u>848,308</u>	<u>1,886,597</u>	<u>4,331,683</u>
Investment return				
Investment income	33,453	38,602	-	72,055
Net appreciation	(128)	(405)	-	(533)
Investment fees	(13,084)	(14,880)	-	(27,964)
Total investment return	<u>20,241</u>	<u>23,317</u>	<u>-</u>	<u>43,558</u>
Contributions to perpetual endowment	1,710	52,705	60,963	115,378
Amounts appropriated for expenditure	(24,172)	(75,320)	-	(99,492)
Endowment funds as of June 30, 2015	<u>\$ 1,594,557</u>	<u>\$ 849,010</u>	<u>\$ 1,947,560</u>	<u>\$ 4,391,127</u>

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2015 and 2014.

See independent auditor's report.

Fairfax Library Foundation

Notes to Financial Statements June 30, 2015 and 2014

11. Fair value measurements

The Foundation classifies its investments into Level 1, which refers to securities valued using quoted prices from active markets for identical assets; Level 2, which refers to securities not traded on an active market but for which observable market inputs are readily available; and Level 3, which refers to securities valued based on significant unobservable inputs. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Assets measured at fair value on a recurring basis are summarized below as of June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and money market funds	\$ 278,363	\$ -	\$ -	\$ 278,363
Mutual funds				
Fixed Income				
iShares Barclays 1-3 year	289,263	-	-	289,263
iShares Barclays Tips	475,540	-	-	475,540
iShares Barclays 3-7 years	285,079	-	-	285,079
iShares Core Total U.S.	476,131	-	-	476,131
Equities				
iShares Russell 1000	1,301,686	-	-	1,301,686
iShares MSCI EAFE Index	629,249	-	-	629,249
Revenueshares Small Cap	655,816	-	-	655,816
Total investments reported at fair value	<u>\$ 4,391,127</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,391,127</u>

See independent auditor's report.

Fairfax Library Foundation

Notes to Financial Statements June 30, 2015 and 2014

11. Fair value measurements (continued)

Assets measured at fair value on a recurring basis are summarized below as of June 30, 2014:

	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 388,753	\$ -	\$ -	\$ 388,753
Mutual funds				
Fixed Income				
iShares Barclays 1-3 year	170,328	-	-	170,328
iShares Barclays Tips	401,453	-	-	401,453
iShares Barclays 3-7 years	167,625	-	-	167,625
iShares Core Total U.S.	415,501	-	-	415,501
Equities				
iShares Russell 1000	1,399,565	-	-	1,399,565
Revenueshares Small Cap	759,318	-	-	759,318
iShares MSCI EAFE Index	629,140	-	-	629,140
Total investments reported at fair value	<u>\$ 4,331,683</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,331,683</u>

12. Subsequent events

The Foundation assessed events occurring subsequent to June 30, 2015 through January 27, 2016, the date the financial statements were available to be issued, for potential recognition and disclosure in the financial statements.

The Foundation has unrealized losses on investments subsequent to June 30, 2015. The value of the School's combined investment portfolio on December 31, 2015, the most recent statement date, was \$4,316,021. Based on the Foundation's long term outlook on the investment portfolio, management expects this decline to be temporary.

No other events have occurred that would require adjustment to or disclosure in the financial statements.

See independent auditor's report.