Library Foundation of Los Angeles

Providing Support for the Los Angeles Public Library

Financial Statements
June 30, 2014 and 2013

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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, 2014 and 2013, and the related statements of activities 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, 2014 and 2013, 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.

Report on Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenses on page 24 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Windes, Inc.

Long Beach, California
January 26, 2015

LIBRARY FOUNDATION OF LOS ANGELES

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30, 2014	June 30, 2013
ASSETS		
Cash and cash equivalents	$ 751,095	$ 553,591
Investments	37,051,011	30,454,112
Pledges receivable	1,750,024	3,548,368
Library store inventory	117,608	116,000
Property and equipment, net	86,814	65,246
Interests in charitable remainder trusts	464,213	423,086
Other assets	53,708	100,863
TOTAL ASSETS	$ 40,274,473	$ 35,261,266

LIABILITIES AND NET ASSETS

	2014	2013
LIABILITIES		
Accounts payable	$ 470	$ 4,660
Accrued expenses	86,619	129,990
Deferred revenue	527,500	177,700
	614,589	312,350
COMMITMENTS (Notes 9 and 10)		
NET ASSETS		
Unrestricted:		
Available for general operations	1,921,836	2,138,136
Board-directed endowment	17,013,501	14,909,629
	18,935,337	17,047,765
Temporarily restricted:		
Specific purpose	3,286,609	2,945,032
Endowment	6,701,637	4,569,818
	9,988,246	7,514,850
Permanently restricted – endowment	10,736,301	10,386,301
Total Net Assets	39,659,884	34,948,916
TOTAL LIABILITIES AND NET ASSETS	$ 40,274,473	$ 35,261,266

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 RESTRICTIONS	3,513,078	–	(3,513,078)	–	–
TOTAL SUPPORT AND REVENUE	5,415,736	250,000	(229,026)	350,000	5,786,710
EXPENSES					
Program Services:					
Adopt-a-branch and computer aides	483,802				483,802
Adult literacy	731,784				731,784
Technology	142,142				142,142
Cultural programs	833,161				833,161
Exhibitions	23,634				23,634
Children's programs	422,747				422,747
Library awareness and collections	777,778				777,778
Teen programs	696,508				696,508
Library Store	548,667				548,667
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	(751,250)	250,000	(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
TRANSFERS	432,438	(432,438)	–		–
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 ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	Unrestricted				
	Undesignated	Board Directed	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITY:					
SUPPORT AND REVENUE					
Contributions	$ 1,223,700	$ 2,850,000	$ 2,769,958		$ 6,843,658
Fund-raising events – net of direct expenses of $154,516	536,990	–	44,940		581,930
Store revenues, net of discounts	431,958	–	–		431,958
	2,192,648	2,850,000	2,814,898		7,857,546
NET ASSETS RELEASED FROM RESTRICTIONS	3,036,391	–	(3,036,391)		–
TOTAL SUPPORT AND REVENUE	5,229,039	2,850,000	(221,493)		7,857,546
EXPENSES					
Program Services:					
Adopt-a-branch and computer aides	356,510				356,510
Adult literacy	518,557				518,557
Technology and library improvements	276,995				276,995
Cultural programs	641,549				641,549
Exhibitions	39,584				39,584
Children's programs	434,086				434,086
Library awareness and collections	576,260				576,260
Teen programs	831,554				831,554
Library Store	498,887				498,887
Total Program Services	4,173,982				4,173,982
Supporting Services:					
General and administrative	657,219				657,219
Fund-raising	788,880				788,880
Total Supporting Services	1,446,099				1,446,099
TOTAL EXPENSES	5,620,081				5,620,081
CHANGE IN NET ASSETS FROM OPERATIONS	(391,042)	2,850,000	(221,493)		2,237,465
NONOPERATING ACTIVITY:					
Interest and dividends	44	312,017	382,178		694,239
Net realized and unrealized gain on investments	36,771	1,126,585	1,393,315		2,556,671
Change in value of charitable remainder trusts	–	–	13,545		13,545
	36,815	1,438,602	1,789,038		3,264,455
TRANSFERS	401,785	(401,785)	–		–
CHANGE IN NET ASSETS	47,558	3,886,817	1,567,545		5,501,920
BEGINNING NET ASSETS	2,090,578	11,022,812	5,947,305	$ 10,386,301	29,446,996
ENDING NET ASSETS	$ 2,138,136	$ 14,909,629	$ 7,514,850	$ 10,386,301	$ 34,948,916

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, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 4,710,968	$ 5,501,920
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	15,932	24,263
Net realized and unrealized gain on investments	(4,200,990)	(2,556,671)
Change in value of charitable remainder trusts	(41,127)	(13,545)
Changes in operating assets and liabilities:		
Pledges receivable	1,798,344	(3,015,873)
Library store inventory	(1,608)	(11,007)
Other assets	47,155	(78,403)
Accounts payable	(4,190)	(89,385)
Accrued expenses	(43,371)	28,876
Deferred revenue	349,800	(323,033)
Net Cash Provided By (Used In) Operating Activities	2,630,913	(532,858)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale or maturity of investments	34,124,297	6,818,502
Purchases of investments	(36,520,206)	(6,657,582)
Purchases of equipment	(37,500)	(51,674)
Net Cash Provided By (Used In) Investing Activities	(2,433,409)	109,246
NET CHANGE IN CASH AND CASH EQUIVALENTS	197,504	(423,612)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	553,591	977,203
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	$ 751,095	$ 553,591

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

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 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 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, 2014 and 2013, deferred revenue related primarily to the 22nd Anniversary Awards Dinner and the 2013 Literary Feasts, 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.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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, 2014 and throughout the year, the Foundation has maintained cash in its financial institutions in excess of federally insured limits.

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.

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.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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 6.) In addition, the Foundation also expends unrestricted net assets for program services. (See program service expenses on the statements of activities and the supplemental schedules of expenses on page 24.)

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.

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 $229,827 and $204,208 of donated goods and professional services for the years ended June 30, 2014 and 2013, 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.

Subsequent Events

In preparing these financial statements, the Foundation's management has evaluated events and transactions for potential recognition or disclosure through January 26, 2015, the date the financial statements were available to be issued.

LIBRARY FOUNDATION OF LOS ANGELES

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 – Investments

Investments consist of the following:

	June 30,	
	2014	**2013**
Investments:		
US Treasury bonds	$ 121,735	$ 211,225
Corporate bonds - domestic	1,602,666	1,252,334
Mortgage notes	1,030,365	1,353,904
Municipal bonds	–	216,350
Foreign bonds	444,807	404,551
Equity funds	21,202,238	18,889,204
Fixed income	7,548,803	8,126,544
Hedge fund strategies	3,436,505	–
Real assets	1,663,892	–
	$ 37,051,011	$ 30,454,112

Investment return consists of the following:

	For the Year Ended June 30,	
	2014	**2013**
Interest and dividends	$ 849,127	$ 694,239
Net realized and unrealized gain on investments	4,200,990	2,556,671
	$ 5,050,117	$ 3,250,910

Investment management fees totaled approximately $97,000 and $72,000 for the years ended June 30, 2014 and 2013, 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 totaled $1,750,024 and $3,548,368 at June 30, 2014 and 2013, respectively. Pledges receivable are expected to be collected within one year.

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 statements of activities as changes in value of charitable remainder trusts.

Beneficial interests in charitable remainder trusts totaled $464,213 and $423,086 at June 30, 2014 and 2013, respectively, representing the portion of the charitable remainder trusts for which the Foundation is the designated beneficiary.

NOTE 5 – Board Designated Net Assets

As of June 30, 2014 and 2013, the Foundation Board of Directors had designated $17,013,501 and $14,909,629, respectively, of unrestricted net assets toward the board-designated endowment fund to provide for the future support of Foundation activities. (See Note 8.) During the years ended June 30, 2014 and 2013, the Foundation recognized $250,000 and $2,850,000, respectively, in bequest contributions from the estate of Victoria E. Foote. The Board has designated these bequests, totaling $3,100,000, toward the Victoria E. Foote Endowment Fund.

NOTE 6 – 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, 2014	June 30, 2013
Adopt-a-branch and computer aides	$ 420,064	$ 320,398
Adult literacy	635,377	466,030
Technology	123,416	248,937
Cultural programs	713,879	450,414
Exhibitions	20,520	35,574
Children's programs	367,054	390,115
Library awareness and collections	628,019	377,602
Teen programs	604,749	747,321
	$ 3,513,078	$ 3,036,391

NOTE 7 – Permanently Restricted Net Assets

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

	June 30, 2014	June 30, 2013
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	–
Sharon Oxborough Endowment	50,000	–
Lynn Strasburg Miller Endowment	50,000	–
	$ 10,736,301	$ 10,386,301

NOTE 7 – 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.

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 $250,000 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 $50,000 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 $50,000 pledged gift is permanently restricted and only earnings from the Lynn Strasburg Miller Endowed Fund are designated to support this program.

NOTE 8 – 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.

NOTE 8 – 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 its endowment to grow sufficiently to preserve or increase the purchasing power of its endowments.

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, 2014 and 2013.

Amounts Appropriated for Expenditure

The amount appropriated for expenditure during the year ended June 30, 2014, as shown in the changes in endowment net assets in the following schedules was $432,438 from the Board Directed Endowment fund and $529,476 from Donor Designated Endowment funds. As the $529,476 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.

NOTE 8 – Endowment (Continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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
	–	6,701,637	10,736,301	17,437,938
Total endowment funds	$ 17,013,501	$ 6,701,637	$ 10,736,301	$ 34,451,439
June 30, 2013:				
Board-designated	$ 14,909,629	$ –	$ –	$ 14,909,629
Donor-designated:				
Temporarily restricted	–	4,569,818	–	4,569,818
Permanently restricted	–	–	10,386,301	10,386,301
	–	4,569,818	10,386,301	14,956,119
Total endowment funds	$ 14,909,629	$ 4,569,818	$ 10,386,301	$ 29,865,748

NOTE 8 – Endowment (Continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	1,947,105	2,266,456	–	4,213,561
Total investment return	2,286,310	2,661,295	–	4,947,605
Board designation	250,000	–	350,000	600,000
Amounts appropriated for expenditure	(432,438)	(529,476)	–	(961,914)
End of year	$ 17,013,501	$ 6,701,637	$ 10,736,301	$ 34,451,439

Changes in endowment net assets for the year ended June 30, 2013 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of year	$ 11,022,812	$ 3,232,873	$ 10,386,301	$ 24,641,986
Investment return:				
Interest and dividends	312,017	382,178	–	694,195
Net appreciation	1,126,585	1,393,315	–	2,519,900
Total investment return	1,438,602	1,775,493	–	3,214,095
Board designation	2,850,000	–	–	2,850,000
Amounts appropriated for expenditure	(401,785)	(438,548)	–	(840,333)
End of year	$ 14,909,629	$ 4,569,818	$ 10,386,301	$ 29,865,748

NOTE 9 – 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, 2014 and 2013 amounted to $25,000 and $21,598, respectively.

The Library provides office space at no charge to the Foundation. The Foundation has recorded in-kind contributions of $24,000 in each of the years ended June 30, 2014 and 2013 for the donated space. Such in-kind support is offset by like amounts included in expenses.

NOTE 10 – 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 $41,210 and $37,369 in 2014 and 2013, respectively.

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:

		Fair Value Hierarchy Ranking		
	Total Fair Value	Level 1	Level 2	Level 3
At June 30, 2014:				
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	–
	37,051,011	3,199,572	33,851,439	–
Interests in charitable remainder trusts	464,213	–	–	464,213
	$ 37,515,224	$ 3,199,572	$ 33,851,439	$ 464,213

NOTE 11 – Fair Value Measurements (Continued)

	Total Fair Value	Fair Value Hierarchy Ranking Level 1	Level 2	Level 3
At June 30, 2013:				
Investments:				
US Treasury bonds	$ 211,225	$ 211,225	$ –	$ –
Corporate bonds-domestic	1,252,334	1,252,334	–	–
Mortgage notes	1,353,904	1,353,904	–	–
Municipal bonds	216,350	216,350	–	–
Foreign bonds	404,551	404,551	–	–
Equity funds	18,889,204	–	18,889,204	–
Fixed income	8,126,544	–	8,126,544	–
	30,454,112	3,438,364	27,015,748	–
Interests in charitable remainder trusts	423,086	–	–	423,086
	$ 30,877,198	$ 3,438,364	$ 27,015,748	$ 423,086

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, 2014	2013
PROGRAM SERVICES		
Collateral material and promotions	$ 303,077	$ 381,758
Computer equipment	128,133	333,570
Library collections	282,344	301,996
Events	206,376	187,262
Furniture and fixtures	27,054	3,970
Seminars, exhibits, and workshops	1,056,828	862,402
Staff for program services	1,457,582	1,185,945
Administrative support	650,162	418,192
	4,111,556	3,675,095
Library Store:		
Cost of goods sold	274,687	242,860
Salaries and payroll tax	178,681	177,593
Office administration and supplies	24,117	16,263
Rent	25,506	21,598
Mobile library store	12,317	6,127
Other	33,359	34,446
	548,667	498,887
Total Program Services	4,660,223	4,173,982
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and payroll tax	362,190	405,104
Collateral materials and printing	6,039	7,262
Office administration and supplies	93,014	101,143
Consulting and other outside services	102,523	96,007
Traveling and related expenses	14,576	10,376
Other	109,162	37,327
Total General and Administrative Expenses	687,504	657,219
FUND-RAISING EXPENSES		
Salaries and payroll tax	721,368	694,670
Other fund-raising expenses	97,891	94,210
Total Fund-Raising Expenses	819,259	788,880
TOTAL EXPENSES	$ 6,166,986	$ 5,620,081