

FREE LIBRARY OF PHILADELPHIA FOUNDATION

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2008)

FREE LIBRARY OF PHILADELPHIA FOUNDATION

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Free Library of Philadelphia Foundation
Philadelphia, Pennsylvania

We have audited the accompanying statement of financial position of the Free Library of Philadelphia Foundation (the "Foundation") as of June 30, 2009, and the related statements of activities, cash flows, and functional expenses for the year 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 audit. The prior year summarized comparative information has been derived from the Foundation's 2008 financial statements and, in our report dated November 14, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Free Library of Philadelphia Foundation as of June 30, 2009, and the change in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2009, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Foundation taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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.

Elko & Associates Ltd

November 18, 2009

FREE LIBRARY OF PHILADELPHIA FOUNDATION
STATEMENTS OF FINANCIAL POSITION

	JUNE 30,	
	2009	2008
ASSETS		
Cash and cash equivalents	\$ 11,071,695	\$ 12,231,367
Grants and contributions receivable, net	9,763,940	11,183,839
Fines and other receivables	546,499	972,610
Prepaid expenses	200,215	31,521
Furniture and equipment, net	379,480	-
Investments	18,136,937	24,551,046
Beneficial interest in life insurance	24,240	22,690
Executive retirement plan trust	-	183,562
	<u>\$ 40,123,006</u>	<u>\$ 49,176,635</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 577,821	\$ 749,351
Accrued payroll and related liabilities	179,113	150,010
Obligation under deferred compensation agreement	-	183,562
	<u>756,934</u>	<u>1,082,923</u>
NET ASSETS		
Unrestricted		
Undesignated	4,668,399	5,286,111
Board designated for specific purposes	1,494,137	1,494,136
Total unrestricted	<u>6,162,536</u>	<u>6,780,247</u>
Temporarily restricted	23,852,143	31,962,247
Permanently restricted	9,351,393	9,351,218
	<u>39,366,072</u>	<u>48,093,712</u>
	<u>\$ 40,123,006</u>	<u>\$ 49,176,635</u>

The accompanying Notes are an integral part of these statements.

FREE LIBRARY OF PHILADELPHIA FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR 2008)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	2009 TOTAL	2008 TOTAL
Operating support and revenue:					
Grants and contributions	\$ 1,139,605	\$ 1,658,531	\$ -	\$ 2,798,136	\$ 2,880,031
Federal and state grants and city capital appropriations	53,400	4,763,550	-	4,816,950	5,219,321
Contributions - Central Library Campaign	-	799,027	-	799,027	3,292,722
Fees and library services	340,037	65,328	-	405,365	415,838
Fines and lost books	257,491	-	-	257,491	283,269
Sale of books and publications	20,021	-	-	20,021	23,336
Other income	344,324	-	-	344,324	342,527
Dividend and interest income	53,075	-	-	53,075	177,361
Long-term investment return designated for operations	222,446	905,619	-	1,128,065	1,136,481
Net assets released from restriction	11,739,257	(11,739,257)	-	-	-
Total Operating Support and Revenue	14,169,656	(3,547,202)	-	10,622,454	13,770,886
Operating expenses:					
Program services					
Public programs	7,712,987	-	-	7,712,987	7,814,299
Collection and preservation	161,056	-	-	161,056	158,197
Technology	531,684	-	-	531,684	307,601
Facilities renovation	12,588	-	-	12,588	47,481
Central library capital renovation project	3,671,087	-	-	3,671,087	3,869,235
Total Program Services	12,089,402	-	-	12,089,402	12,196,813
Supporting services					
Administration	676,740	-	-	676,740	786,008
Fund raising	951,506	-	-	951,506	962,315
Total Supporting Services	1,628,246	-	-	1,628,246	1,748,323
Total Operating Expenses	13,717,648	-	-	13,717,648	13,945,136
Change in net assets from operations	452,008	(3,547,202)	-	(3,095,194)	(174,250)
Non-operating support and gains (loss):					
Grants and contributions to endowment	567,341	214,150	175	781,666	215,766
Long-term investment return less than return designated for operations	(1,637,060)	(4,777,052)	-	(6,414,112)	(3,528,560)
Total Non-operating Support and Gains (Loss)	(1,069,719)	(4,562,902)	175	(5,632,446)	(3,312,794)
CHANGE IN NET ASSETS	(617,711)	(8,110,104)	175	(8,727,640)	(3,487,044)
NET ASSETS - BEGINNING OF YEAR	6,780,247	31,962,247	9,351,218	48,093,712	51,580,756
NET ASSETS - END OF YEAR	\$ 6,162,536	\$ 23,852,143	\$ 9,351,393	\$ 39,366,072	\$ 48,093,712

The accompanying Notes are an integral part of these statements.

FREE LIBRARY OF PHILADELPHIA FOUNDATION
STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED	
	JUNE 30,	
	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (8,727,640)	\$ (3,487,044)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	85,190	11,316
Net loss on investments	6,007,315	3,983,417
Increase in beneficial interest in life insurance	(1,550)	(1,446)
(Increase) decrease in assets		
Grants and contributions receivable	1,419,899	(949,032)
Fines and other receivables	426,111	331,369
Prepaid expenses	(168,694)	4,813
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(171,530)	52,696
Accrued payroll and related liabilities	29,103	18,924
Obligation under deferred compensation agreement	(183,562)	(4,767)
Total Adjustments	<u>7,442,282</u>	<u>3,447,290</u>
Net Cash Used in Operating Activities	<u>(1,285,358)</u>	<u>(39,754)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture and equipment	(464,670)	-
Purchase of investments	(2,764,917)	(22,797,218)
Proceeds from sale of investments	3,171,711	19,283,606
Executive retirement plan trust	<u>183,562</u>	<u>4,767</u>
Net Cash Provided by (Used in) Investing Activities	<u>125,686</u>	<u>(3,508,845)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,159,672)	(3,548,599)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>12,231,367</u>	<u>15,779,966</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 11,071,695</u>	<u>\$ 12,231,367</u>

The accompanying Notes are an integral part of these statements.

**FREE LIBRARY OF PHILADELPHIA FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR 2008)**

	Programs and Library Services						Support Services			2008 Total
	Public Programs	Collections and Preservations	Technology	Facilities Renovations	Central Library		Administration	Fund Raising		
					Renovation	Project			Subtotal	
Salaries and wages	\$ 1,231,828	\$ -	\$ 574	\$ 2,417	\$ 803,745	\$ 2,038,564	\$ 396,257	\$ 342,001	\$ 2,776,822	\$ 2,380,750
Payroll taxes and benefits	192,196	-	51	625	184,685	377,557	81,193	75,896	534,646	478,870
Audit and legal fees	-	-	-	-	-	-	89,784	-	89,784	84,532
Advertising, printing and photography	229,103	-	2,083	-	76,279	307,465	1,708	113,857	423,030	625,433
Bank and credit card fees	12,678	-	55	-	109	12,842	17,423	16,193	46,458	34,438
Conferences and receptions	167,176	1,602	633	1,065	47,285	217,761	30,925	153,202	401,888	417,016
Depreciation	85,190	-	-	-	-	85,190	-	-	85,190	11,316
Dues and publications	13,879	7,173	-	-	601	21,653	10,916	1,774	34,343	31,196
Equipment	196,408	-	16,168	-	11,479	224,055	7,154	2,153	233,362	450,270
Indirect costs	201,574	2,100	867	243	-	204,784	(191,649)	-	13,135	134
Insurance	3,516	-	-	-	-	3,516	48,111	-	51,627	56,049
Library materials	189,400	150,001	9,000	-	9,815	358,216	-	1,816	360,032	398,006
Other expenses	82,448	-	-	6,260	6,204	94,912	6,492	8,779	110,183	59,677
Professional and other services	3,941,448	150	51,744	-	2,496,985	6,490,327	158,244	156,944	6,805,515	6,989,222
Programs and exhibits	946,999	-	2,700	-	2,693	952,392	32	11,339	963,763	1,369,771
Supplies and software	81,987	30	424,618	274	10,532	517,441	11,107	33,339	561,887	329,509
Telephone and postage	33,324	-	12,717	1,704	15,309	63,054	7,696	26,702	97,452	118,872
Travel	103,833	-	10,474	-	5,366	119,673	1,347	7,511	128,531	110,075
TOTAL	\$ 7,712,987	\$ 161,056	\$ 531,684	\$ 12,588	\$ 3,671,087	\$ 12,089,402	\$ 676,740	\$ 951,506	\$ 13,717,648	\$ 13,945,136

The accompanying Notes are an integral part of these statements.

FREE LIBRARY OF PHILADELPHIA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE A - Summary of Significant Accounting Policies

Nature of Organization - The Free Library of Philadelphia Foundation (the Foundation) functions primarily to secure federal, state, city and private grants and contributions, and to expend those funds on various library programs.

Agreement with the Board of Trustees of the Free Library of Philadelphia

The Foundation entered into an agreement dated June 19, 1984 with the Board of Trustees of the Free Library of Philadelphia, an independent board of the City of Philadelphia (City or City Library) responsible for securing and expending City appropriations. Under this agreement, the Board of Trustees of the Free Library of Philadelphia maintains care and custody of the collections of the Foundation and makes all necessary operational decisions as to the management of the libraries and the collections of the Foundation. These financial statements report only the assets, liabilities, net assets and changes in net assets of the Foundation and, accordingly, do not include any amounts applicable to the financial position or changes in net assets of the City Library.

Basis of Accounting - The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and report all significant assets and liabilities.

Basis of Presentation - The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are not subject to donor-imposed stipulations. The Board of Directors may elect to designate such assets for specific purposes or to have them function as endowments. This designation may be removed at the Board's discretion.

Temporarily restricted net assets are subject to donor-imposed stipulations that will be met either by actions of the Foundation or by the passage of time.

Permanently restricted net assets are subject to donor-imposed stipulations that require that they be maintained permanently.

The statement of activities distinguishes changes in net assets from operations from other changes in net assets. Operating activity includes revenues and other support, including investment income generated from short-term investments, as well as long-term investment income designated for operations (see Note D), and all expenses that are available to provide program services and support the administrative functions of the Foundation. Other changes in net assets include permanently restricted contributions and contributions designated for other purposes by the Board, as well as long-term investment income in excess of (or less than) the Foundation's designated spending rate (see Note D).

FREE LIBRARY OF PHILADELPHIA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE A - Summary of Significant Accounting Policies - continued

Revenue is reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on disposition of assets or settlement of liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported 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 requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Financial Information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2008, from which the summarized information was derived.

Fair Value of Financial Instruments - On July 1, 2008, the Foundation adopted the fair value rule as it pertains to its financial assets and liabilities. The rule defines fair value 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, based on assumptions that market participants would use, including a consideration of non-performance risk.

Management assesses the inputs used to measure fair value using a three-tier hierarchy based on the extent to which inputs used in measuring fair value are observable in the market. Level 1 inputs are quoted market prices for identical assets or liabilities in an active market that the entity has the ability to access and are the most observable. Level 2 inputs include quoted market prices for similar assets or liabilities and observable inputs such as interest rates, currency exchange rates, commodity rates, and yield curves. Level 3 inputs are not observable inputs in the market and include management's judgments about the assumptions market participants would use in pricing the asset or liability.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments - The Foundation states investments in marketable equity and debt securities at fair value based on quoted market prices in active markets. Gains and losses on these investments are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or law.

FREE LIBRARY OF PHILADELPHIA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE A - Summary of Significant Accounting Policies - continued

Furniture and Equipment - Acquisitions of furniture and equipment, and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Furniture and equipment are carried at cost or, if donated, at the fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 8 years.

Revenue and Other Support - The Foundation's revenue and other support consists of contributions from various individuals, corporations and foundations. The Foundation also receives support from certain federal, state and local government agencies.

Contributions and other support received are recorded as unrestricted, temporarily restricted, or permanently restricted support. This classification is dependent on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is 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 statement of activities as net assets released from restrictions.

Promises to Give - Unconditional promises to give are recorded at net realizable value if they are expected to be collected in one year and fair value (determined by the present value of estimated future cash flows) if expected to be collected in more than one year. Additionally, uncollected promises to give are recorded net of estimated allowances for uncollectible amounts. Conditional promises to give are not recorded as contribution revenue until the conditions associated with the promises are met.

Expenses - Expenses are recognized as changes in unrestricted net assets when incurred. The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities, and functional expenses.

Advertising - The Foundation uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense was approximately \$132,000 and \$235,000 for the years ended June 30, 2009 and 2008, respectively.

Contributed Facilities and Services - The City provides the Foundation with facilities and certain administrative services without charge. The fair value of these contributions is not readily determinable and is not reported in the accompanying financial statements.

Tax Status - The Foundation has obtained a favorable determination that it is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as an organization that is other than a private foundation. Accordingly, no provision has been made for income taxes.

FREE LIBRARY OF PHILADELPHIA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE A - Summary of Significant Accounting Policies - continued

Recently Issued Accounting Standards - On February 8, 2008, the Financial Accounting Standards Board ("FASB") issued Staff Position 157-2, *Effective Date of FASB 157*, which deferred the adoption of SFAS No. 157 for nonfinancial assets and liabilities. Management does not anticipate the adoption of SFAS No. 157 as it relates to nonfinancial assets and liabilities will have a material impact on the Foundation's results of activities and financial position.

Management has elected to defer adoption of the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), under the provisions of FASB Staff Position ("FSP") FIN 48-3. The Foundation records a liability for uncertain tax positions when it is probable that a loss has been incurred and the amount can be reasonably estimated. Management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. Management does not anticipate the adoption of FIN 48 to have a material impact on the Foundation's results of activities and financial position.

NOTE B - Grants and Contributions Receivable

Grants and contributions receivable include unconditional promises to give and other amounts that are expected to be collected in one year or more and are stated at realizable value or at the present value of estimated cash flows. The present value discount rate applied is the prime interest rate. Grants and contributions receivable in one year or more consisted of the following:

	June 30,	
	2009	2008
Receivable in less than one year	\$ 8,478,556	\$ 8,506,688
Receivable in one to four years	<u>1,464,315</u>	<u>2,985,643</u>
Total	9,942,871	11,492,331
Less: Present value discount	(78,745)	(161,591)
Less: Allowance for uncollectible promises to give	<u>(100,186)</u>	<u>(146,901)</u>
Grants and contributions receivable, net	<u>\$ 9,763,940</u>	<u>\$ 11,183,839</u>

The Foundation also has a revocable interest in a split interest arrangement with an estimated value of \$1 million. However, because of the revocable nature of the Foundation's interest, it has not been recognized in the financial statements.

Additionally, the Foundation has received conditional promises to give up to a value of \$36.5 million in connection with the Central Library Project (also see Note M).

FREE LIBRARY OF PHILADELPHIA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE C - Furniture and Equipment

	June 30,	
	2009	2008
Computer equipment	\$ 86,997	\$ 86,997
Furniture and equipment	26,249	26,249
Other equipment	506,329	41,659
Total property and equipment	619,575	154,905
Less: accumulated depreciation	(240,095)	(154,905)
Furniture and equipment, net	<u>\$ 379,480</u>	<u>\$ -</u>

NOTE D - Investments

The fair value of the Foundation's investments, none of which are held for trading purposes, is as follows:

	June 30,	
	2009	2008
Investments:		
Cash	\$ 1,863	\$ 35,611
Mutual Funds - Equity	12,834,107	20,238,873
Mutual Funds - Fixed Income	5,300,967	4,276,562
Total	<u>\$ 18,136,937</u>	<u>\$ 24,551,046</u>

The fair value of the fixed income and equity investments are based on quoted market prices in active markets for those or similar investments (Level 1 inputs).

The investments of the Foundation include permanent endowments, funds established by the Board of Directors to function as endowments, and other balances. Investment returns related to assets of permanent endowments are classified as unrestricted or temporarily restricted depending on donor stipulations.

The investments are managed on a total return basis to provide both income and capital appreciation. Under the Foundation's spending policy, a spending rate is assessed against endowments that support unrestricted and certain temporarily restricted activities, consistent with an annual budget approved by the Board of Directors. The spending rate policy allows the expenditure of a prudent amount of the total investment return over a period of time that preserves the future purchasing power of endowment principal. A spending rate of 5% of the average fair value of the investments over the preceding twelve quarters was appropriated to support current library operations and administration of various library projects, for the year ended June 30, 2009.

FREE LIBRARY OF PHILADELPHIA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE D - Investments - continued

The following schedule summarizes the investment return on the investments for the year ended June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Dividend and interest	\$ 159,620	\$ 465,618	\$ 625,238
Net realized and unrealized losses	<u>(1,574,234)</u>	<u>(4,337,051)</u>	<u>(5,911,285)</u>
Total investment return	(1,414,614)	(3,871,433)	(5,286,047)
Less: Long-term investment return designated for operations and administration	<u>222,446</u>	<u>905,619</u>	<u>1,128,065</u>
Long-term investment return in excess of (less than) return designated for operations	<u>\$ (1,637,060)</u>	<u>\$ (4,777,052)</u>	<u>\$ (6,414,112)</u>

The unrealized losses on the Foundation's investments were caused by an overall financial market and economic downturn. The severity of the impairment and its duration are consistent with the general trend in the markets. Management has evaluated the near-term prospects of the funds in relation to the severity and duration of the impairment. Based on that evaluation and the Foundation's intent and ability to hold these investments for a reasonable period of time sufficient for a forecasted recovery of fair value, management does not consider these investments to be other-than-temporarily impaired as of June 30, 2009.

NOTE E - Retirement Plans

The Foundation has established a tax deferred retirement plan under Section 403(b) of the Internal Revenue Code for its employees. All employees (other than employees who normally work less than 20 hours per week and/or have not completed one year of service) are eligible for participation in the plan. The Foundation will match employee contributions up to a maximum of 4.5% of the participant's compensation for all employees who have completed one year of service. For the fiscal years ended June 30, 2009 and 2008, pension expense was \$56,587 and \$52,346, respectively.

The Foundation also sponsored a retirement plan through a grantor trust for the benefit of the retired president and director. At December 31, 2008, the participant became fully vested in the plan and ownership of the account was transferred to the participant.

FREE LIBRARY OF PHILADELPHIA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE F - Collections

The Foundation owns and maintains collections of rare books, manuscripts, maps, paintings, prints, music, etc., most of which have been acquired through individual gifts and bequests. A fine arts insurance policy with coverage up to \$5,000,000 is carried on the collections. In the opinion of management, this represents only a fraction of the present fair value of the items, many of which are irreplaceable. The Foundation has not assigned a value to the collections for accounting purposes, since it is not practical to determine the cost, the fair value at date of acquisition or the net realizable value of these collections.

NOTE G - Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Branch and other program services	\$ 3,746,887	\$ 6,172,246
Technology	246,540	1,813,608
Collection and preservation	4,672,771	5,722,821
Central Library capital campaign	<u>15,185,945</u>	<u>18,253,572</u>
Total temporarily restricted net assets	<u>\$ 23,852,143</u>	<u>\$ 31,962,247</u>

NOTE H - Endowment Fund

In August 2008, the FASB issued FASB Staff Position 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and enhanced Disclosures for All Endowment Funds* (FSP FAS 117-1), which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and establishes requirements for disclosures about an organization's endowment funds. Pennsylvania has not adopted UPMIFA. The following disclosures are made as required by FSP FAS 117-1.

The endowment of the Foundation consists of 65 funds established for various purposes, and includes both donor restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by United States generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

FREE LIBRARY OF PHILADELPHIA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE H - Endowment Fund - continued

Management has interpreted Pennsylvania law for investment of trust funds (PA Law) 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 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 that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by PA Law. In accordance with PA Law, 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 effect 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

The composition of endowment net assets by type of fund at June 30, 2009 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ (350,263)</u>	<u>\$ 4,629,899</u>	<u>\$ 9,351,393</u>	<u>\$ 13,631,029</u>

Changes in endowment net assets for the year ended June 30, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,601,220	\$ 8,309,007	\$ 9,351,218	\$ 19,261,445
Contributions	-	214,150	175	214,325
Investment income	95,335	425,754	-	521,089
Net realized and unrealized depreciation	(1,855,852)	(3,480,475)	-	(5,336,327)
Amounts appropriated for expenditure	<u>(190,966)</u>	<u>(838,537)</u>	-	<u>(1,029,503)</u>
Endowment net assets, end of year	<u>\$ (350,263)</u>	<u>\$ 4,629,899</u>	<u>\$ 9,351,393</u>	<u>\$ 13,631,029</u>

FREE LIBRARY OF PHILADELPHIA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE H - Endowment Fund - continued

The composition of endowment net assets by type of fund at June 30, 2008 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 1,601,220	\$ 8,309,007	\$ 9,351,218	\$ 19,261,445

Changes in endowment net assets for the year June 30, 2008 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,207,742	\$ 11,990,629	\$ 9,288,814	\$ 23,487,185
Contributions	441	151,739	62,404	214,584
Investment income	606,688	2,758,205	-	3,364,893
Net realized and unrealized depreciation	(1,016,296)	(4,464,549)	-	(5,480,845)
Amounts appropriated for expenditure	(197,355)	(837,312)	-	(1,034,667)
Transfers to non-endowment funds	-	(1,289,705)	-	(1,289,705)
Endowment net assets, end of year	<u>\$ 1,601,220</u>	<u>\$ 8,309,007</u>	<u>\$ 9,351,218</u>	<u>\$ 19,261,445</u>

Funds with Deficiencies

At times, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or PA Law requires the Foundation to retain as a fund of perpetual duration.

In accordance with United States generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets and were \$1,101,177 and \$7,550, respectively as of June 30, 2009 and 2008. Deficiencies result from unfavorable market fluctuations that occur after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board of Directors.

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 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 or for a donor specified period as well as board designated funds. Under this 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 rate of general price inflation by 5%.

FREE LIBRARY OF PHILADELPHIA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE H - Endowment Fund - 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 an emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year 5 percent of its endowment fund's average fair value over the prior 12 quarters through March 31 of the fiscal year preceding the fiscal year in which the distribution is planned. In establishing this policy, 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 rate equal to the rate of inflation (Consumer Price Index). This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment returns.

NOTE I - Concentrations of Credit Risk

The Foundation maintains its cash balances in two financial institutions located in Philadelphia, Pennsylvania. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Foundation exceeded this limit at various times throughout the year.

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of temporary cash investments made with financial institutions.

NOTE J - Other Related Party Transactions

The Foundation and the City Library have some board members in common. Fine income and related receivables are received from and due from, respectively, the City Library.

NOTE K - Commitments and Contingencies

Line of Credit

The Foundation has an available line of credit from PNC Bank for \$1,500,000. The line of credit bears interest at the bank's prime rate less one percent (2.25% effective rate at June 30, 2009). The line of credit is renewable annually. No amounts were outstanding at June 30, 2009 or 2008.

FREE LIBRARY OF PHILADELPHIA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE K - Commitments and Contingencies - continued

City Lease

There is a lease development agreement between the Philadelphia Authority Industrial Development (PAID) (on behalf of the City) and the Foundation in connection with the Foundation's management of the Central Library Capital Renovation Project. Rent under terms of the agreement was \$1. The terms of the agreement stipulate that the Foundation will pay as additional rent any and all sums which may become due under the lease or by reason of the failure of the Foundation to comply with the terms of the lease.

Grant Fund Usage

In fiscal year 2004, the Foundation received a \$5,000,000 grant from a donor in support of the Central Library Capital Renovation Project (the Project) (see Note M). The donor has indicated that if funds sufficient to undertake and cover the completion of the Project have not been raised by March 31, 2010, the donor will determine at its sole discretion whether any of the remaining grant funds are to be returned. As of June 30, 2009 approximately \$2,700,000 of the grant funds have not been expended.

NOTE L - Grant Compliance

The use of contract and grant monies received is subject to the various compliance requirements of each granting agency. Management believes the Foundation is in compliance with all significant contract and grant requirements. Additionally, grants received are subject to audit and adjustment by grantor agencies. Any disallowed expenditures, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenses, if any, which may be disallowed by a grantor cannot be determined at this time, although the Foundation expects any such amounts to be immaterial.

NOTE M - Operational Matters

In fiscal year 2003, The Foundation began a major capital contribution campaign for the purpose of expanding and renovating the Central Library. The ultimate goal of the campaign is to raise approximately \$175,000,000 which includes \$10,000,000 to establish a programming endowment. This project will be funded by a public-private capital campaign following the model of the Changing Lives capital campaign that resulted in the renovation of the branch libraries.

During the fiscal year 2009, the Foundation recorded \$799,027 in contributions related to the Central Library Capital Renovation Project. Included in grants and contributions receivable (net of discounts and allowances) at June 30, 2009 is \$8,520,101 related to the Project. Expenses incurred in connection with the Project during fiscal year 2009 were \$3,671,087, including fund raising costs of \$1,140,002.

In December 2004, City Council of the City of Philadelphia approved an ordinance authorizing the City to issue up to \$30 million in bonds. Certain conditions must be met before \$20 million of the funds are released to the Foundation for construction of the Project.

SUPPLEMENTARY INFORMATION

FREE LIBRARY OF PHILADELPHIA FOUNDATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2009

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT #	GRANT PERIOD	PROGRAM OR AWARD AMOUNT	FEDERAL EXPENDITURES
FEDERAL AWARDS					
OFFICE OF LIBRARY SERVICES, INSTITUTE OF MUSEUM AND LIBRARY SCIENCES					
Growing Our Own	45.313	RE-01-07-0087	08/01/07-07/31/10	\$ 999,980	\$ 371,788
Regional Initiative	45.313	RE-01-06-0091-06	08/01/06-07/31/09	999,069	294,060
Partnership for Peace	45.312	LG-40-06-0238-06	10/01/06-09/30/08	249,923	68,210
Subtotal				<u>2,248,972</u>	<u>734,058</u>
<i>Passed through the Office of Commonwealth Libraries,</i>					
Bureau of Library Development	45.310	202-709006	10/01/07-09/30/08	164,500	23,891
Library Services and Technical Act (State Library Program)	45.310	202-809006	10/01/08-09/30/09	164,500	81,286
	45.310	202-809053	05/01/08-05/29/09	30,000	30,000
	45.310	202-709111	08/13/08-09/30/08	20,000	20,000
Subtotal				<u>379,000</u>	<u>155,177</u>
Total Office of Library Services, Institute of Museum and Library Sciences					
889,235					
DEPARTMENT OF HEALTH AND HUMAN SERVICES					
<i>Pass through Pennsylvania Department of Education, Bureau of Adult Basic & Literacy Education (PDE)</i>					
Intensive Adult Basic Education Services for Welfare Clients (Move Up)	93.558	091-09-9016	07/01/08-6/30/09	3,750,000	2,999,051
DEPARTMENT OF EDUCATION					
<i>Pass through Pennsylvania Department of Education, Bureau of Adult Basic & Literacy Education (PDE)</i>					
Intensive Adult Basic Education Services for Welfare Clients (Move Up)	84.002	091-09-9016	07/01/08-6/30/09	(1)	749,763
OTHER FEDERAL ASSISTANCE					
<i>Pass through Philadelphia Youth Network (PYN)</i>					
Youth Leadership After School Program	17.259	Y1-93640	09/01/07-08/31/08	45,000	7,326
Youth Leadership After School Program	17.259	Y1-94750	09/01/08-08/31/09	45,000	30,317
PYN Summer 2008	17.259	Y1-94180	03/17/08-09/30/08	8,500	6,989
Subtotal					<u>44,032</u>
Total Federal Awards					
<u>\$ 4,682,081</u>					

(1) Award amount included in total program award from PDE under CFDA 93.558.

FREE LIBRARY OF PHILADELPHIA FOUNDATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 1 - Basis of Presentation

The accompanying schedule of federal expenditures is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.



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CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Free Library of Philadelphia Foundation
Philadelphia, Pennsylvania

We have audited the financial statements of the Free Library of Philadelphia Foundation (the "Foundation") as of and for the year ended June 30, 2009, and have issued our report thereon dated November 18, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Foundation's management, Budget and Administration Committee, Board of Directors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Elko & Associates Ltd

November 18, 2009



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CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
 ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
 Free Library of Philadelphia Foundation
 Philadelphia, Pennsylvania

Compliance

We have audited the compliance of the Free Library of Philadelphia Foundation (the "Foundation") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The Foundation's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Foundation's management. Our responsibility is to express an opinion on the Foundation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Foundation's compliance with those requirements.

In our opinion, the Foundation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Foundation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Foundation's management, Budget and Administration Committee, Board of Directors, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Elko & Associates Ltd

November 18, 2009

FREE LIBRARY OF PHILADELPHIA FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the Free Library of Philadelphia Foundation.
2. No significant deficiencies were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the Free Library of Philadelphia Foundation, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit.
5. The auditors' report on compliance for the major federal award programs for the Foundation expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for the Foundation.
7. The major programs were Code of Federal Domestic Assistance (CFDA) Number 45.310, 93.558 and 84.002.
8. The threshold for distinguishing between Type A and B programs was \$300,000.
9. Free Library of Philadelphia Foundation qualified as a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None