

# **FRIENDS OF THE HENNEPIN COUNTY LIBRARY**

Financial Statements

December 31, 2020 and 2019



**FRIENDS OF THE HENNEPIN COUNTY LIBRARY**

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600 INWOOD AVENUE NORTH  
SUITE 160  
OAKDALE, MN 55128  
TEL: (651) 636-3806  
FAX: (651) 636-1136  
[www.akinshenke.com](http://www.akinshenke.com)

## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Friends of the Hennepin County Library  
Minneapolis, Minnesota

We have audited the accompanying financial statements of Friends of the Hennepin County Library, which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 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 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 Friends of the Hennepin County Library as of December 31, 2020 and 2019, 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.

May 27, 2021

*Akins Henke and Company*

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY**

## Statements of Financial Position

December 31, 2020 and 2019

<b><u>ASSETS</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>
Current Assets:		
Cash	\$ 567,572	2,195,475
Promises to give	67,134	79,214
Prepaid expenses	44,026	32,229
Total Current Assets	<u>678,732</u>	<u>2,306,918</u>
Noncurrent Assets:		
Promises to give	-	25,000
Investments	4,636,605	2,773,407
Equipment and website, net	46,466	9,880
Total Noncurrent Assets	<u>4,683,071</u>	<u>2,808,287</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>5,361,803</u></b>	<b><u>5,115,205</u></b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Current Liabilities:		
Accounts payable	\$ 9,589	91,280
Accrued compensation	47,861	32,781
Deferred program fees	207,654	207,979
Total Current Liabilities	<u>265,104</u>	<u>332,040</u>
Net Assets:		
Without donor restrictions:		
Board designated	743,115	675,729
Undesignated	2,815,038	2,430,596
Total Without Donor Restrictions	<u>3,558,153</u>	<u>3,106,325</u>
With donor restrictions	1,538,546	1,676,840
Total Net Assets	<u>5,096,699</u>	<u>4,783,165</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>5,361,803</u></b>	<b><u>5,115,205</u></b>

See accompanying notes to the financial statements.

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY**

Statement of Activities

For the Year Ended December 31, 2020

	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>
	<u>Restrictions</u>	<u>Restrictions</u>	
<b>SUPPORT AND REVENUE:</b>			
Corporate, foundation and government grants	\$ 733,004	5,467	738,471
In-kind contributions	79,366	-	79,366
Memberships, individual gifts and memorials	1,740,868	55,940	1,796,808
Program revenue	189,878	-	189,878
Investment income	399,192	95,140	494,332
Total Support and Revenue	<u>3,142,308</u>	<u>156,547</u>	<u>3,298,855</u>
 <b>NET ASSETS RELEASED FROM RESTRICTIONS:</b>			
Restrictions satisfied	<u>294,841</u>	<u>(294,841)</u>	<u>-</u>
 <b>EXPENSES:</b>			
Program services	2,222,027	-	2,222,027
General and administrative	118,675	-	118,675
Fundraising	644,619	-	644,619
Total Expenses	<u>2,985,321</u>	<u>-</u>	<u>2,985,321</u>
 <b>CHANGE IN NET ASSETS</b>	 451,828	 (138,294)	 313,534
 <b>NET ASSETS - BEGINNING OF YEAR</b>	 <u>3,106,325</u>	 <u>1,676,840</u>	 <u>4,783,165</u>
 <b>NET ASSETS - END OF YEAR</b>	 <u>\$ 3,558,153</u>	 <u>1,538,546</u>	 <u>5,096,699</u>

See accompanying notes to the financial statements.

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY**

Statement of Activities

For the Year Ended December 31, 2019

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
<b>SUPPORT AND REVENUE:</b>			
Corporate, foundation and government grants	\$ 717,005	91,473	808,478
In-kind contributions	71,899	-	71,899
Memberships, individual gifts and memorials	2,433,222	31,395	2,464,617
Program revenue	289,852	-	289,852
Investment income	237,508	99,857	337,365
Total Support and Revenue	<u>3,749,486</u>	<u>222,725</u>	<u>3,972,211</u>
 <b>NET ASSETS RELEASED FROM RESTRICTIONS:</b>			
Restrictions satisfied	<u>370,409</u>	<u>(370,409)</u>	<u>-</u>
 <b>EXPENSES:</b>			
Program services	2,005,354	-	2,005,354
General and administrative	102,326	-	102,326
Fundraising	561,766	-	561,766
Total Expenses	<u>2,669,446</u>	<u>-</u>	<u>2,669,446</u>
 <b>CHANGE IN NET ASSETS</b>	 1,450,449	 (147,684)	 1,302,765
 <b>NET ASSETS - BEGINNING OF YEAR</b>	 <u>1,655,876</u>	 <u>1,824,524</u>	 <u>3,480,400</u>
 <b>NET ASSETS - END OF YEAR</b>	 <u>\$ 3,106,325</u>	 <u>1,676,840</u>	 <u>4,783,165</u>

See accompanying notes to the financial statements.

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY**

Statement of Functional Expenses  
For the Year Ended December 31, 2020

	<u>Program Services</u>				<u>Support Services</u>			<u>Total</u>
	<u>Library Support and Grants</u>	<u>Programs and Public Awareness</u>	<u>Pen Pals Author Series</u>	<u>Total Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Support Services</u>	
Salaries	\$ 62,151	214,480	78,534	355,165	52,230	226,300	278,530	633,695
Payroll taxes	4,388	15,132	5,546	25,066	3,687	15,991	19,678	44,744
Employee benefits	5,563	19,133	7,033	31,729	9,099	20,301	29,400	61,129
Total personnel costs	<u>72,102</u>	<u>248,745</u>	<u>91,113</u>	<u>411,960</u>	<u>65,016</u>	<u>262,592</u>	<u>327,608</u>	<u>739,568</u>
Accounting/audit	-	-	-	-	16,450	-	16,450	16,450
Insurance	-	-	-	-	2,932	-	2,932	2,932
Processing fees	-	-	10,925	10,925	4,708	20,663	25,371	36,296
Occupancy	6,316	21,751	7,981	36,048	5,305	23,013	28,318	64,366
Marketing and education	-	3,564	-	3,564	188	451	639	4,203
Office supplies	-	7	-	7	1,716	426	2,142	2,149
Software and technology	-	7,209	3,550	10,759	3,211	27,898	31,109	41,868
Dues and subscriptions	-	789	666	1,455	1,678	5	1,683	3,138
Consultants	56,429	68,331	31,724	156,484	16,783	74,382	91,165	247,649
Meetings and conferences	-	272	34	306	419	1,246	1,665	1,971
Travel	-	20	1,380	1,400	45	504	549	1,949
Library grants	1,500,000	-	-	1,500,000	-	-	-	1,500,000
Postage and printing	-	15,669	1,530	17,199	-	232,468	232,468	249,667
Program events	-	6,238	64,162	70,400	-	-	-	70,400
Depreciation	266	917	337	1,520	224	971	1,195	2,715
Total Expenses	<u>\$ 1,635,113</u>	<u>373,512</u>	<u>213,402</u>	<u>2,222,027</u>	<u>118,675</u>	<u>644,619</u>	<u>763,294</u>	<u>2,985,321</u>

See accompanying notes to the financial statements.

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY**

Statement of Functional Expenses  
For the Year Ended December 31, 2019

	<u>Program Services</u>				<u>Support Services</u>			<u>Total</u>
	<u>Library Support and Grants</u>	<u>Programs and Public Awareness</u>	<u>Pen Pals Author Series</u>	<u>Total Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Support Services</u>	
Salaries	\$ 58,930	161,149	72,930	293,009	50,014	224,069	274,083	567,092
Payroll taxes	4,157	11,367	5,144	20,668	3,528	15,804	19,332	40,000
Employee benefits	5,994	16,007	7,342	29,343	9,481	22,262	31,743	61,086
Total personnel costs	<u>69,081</u>	<u>188,523</u>	<u>85,416</u>	<u>343,020</u>	<u>63,023</u>	<u>262,135</u>	<u>325,158</u>	<u>668,178</u>
Accounting/audit	-	-	-	-	16,361	-	16,361	16,361
Insurance	-	-	-	-	2,841	-	2,841	2,841
Processing fees	-	-	12,772	12,772	3,152	13,483	16,635	29,407
Occupancy	6,728	18,706	8,261	33,695	5,727	24,943	30,670	64,365
Marketing and education	-	3,552	-	3,552	1,100	281	1,381	4,933
Office supplies	-	197	780	977	3,053	2,792	5,845	6,822
Dues and subscriptions	-	6,202	-	6,202	1,851	10,306	12,157	18,359
Consultants	9,945	61,688	16,277	87,910	-	59,910	59,910	147,820
Meetings and conferences	-	2,636	121	2,757	2,739	6,578	9,317	12,074
Travel	-	3,576	9,465	13,041	1,096	3,593	4,689	17,730
Library grants	1,268,015	-	-	1,268,015	-	-	-	1,268,015
Postage and printing	-	27,464	6,136	33,600	715	173,874	174,589	208,189
Program events	61	63,493	132,348	195,902	-	1,362	1,362	197,264
Depreciation	781	2,186	944	3,911	668	2,509	3,177	7,088
Total Expenses	<u>\$ 1,354,611</u>	<u>378,223</u>	<u>272,520</u>	<u>2,005,354</u>	<u>102,326</u>	<u>561,766</u>	<u>664,092</u>	<u>2,669,446</u>

See accompanying notes to the financial statements.



**FRIENDS OF THE HENNEPIN COUNTY LIBRARY**

## Statements of Cash Flows

For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 313,534	1,302,765
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	2,715	7,088
Realized and unrealized gains on investments	(463,421)	(300,938)
Permanently restricted contributions received	(600)	(25,231)
Changes in assets and liabilities:		
Decrease in promises to give	37,080	371,669
(Increase) decrease in prepaid expenses	(11,797)	22,189
Increase (decrease) in accounts payable	(81,691)	79,119
Increase (decrease) in accrued compensation	15,080	10,865
Increase (decrease) in deferred revenue	(325)	24,422
Net cash provided by (used for) operating activities	<u>(189,425)</u>	<u>1,491,948</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equipment and website	(39,301)	(1,840)
Purchase of investments	(1,447,881)	(153,267)
Proceeds from sale of investments	48,104	29,711
Net cash used for investing activities	<u>(1,439,078)</u>	<u>(125,396)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Permanently restricted contributions received	<u>600</u>	<u>25,231</u>
<b>INCREASE (DECREASE) IN CASH</b>	(1,627,903)	1,391,783
<b>CASH - BEGINNING OF YEAR</b>	<u>2,195,475</u>	<u>803,692</u>
<b>CASH - END OF YEAR</b>	<u>\$ 567,572</u>	<u>2,195,475</u>

See accompanying notes to the financial statements.

# FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2020 and 2019

## (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Organization

The mission of Friends of the Hennepin County Library (Friends of HCL) is to promote public support and appreciation for the Hennepin County Library system, to encourage the use of the libraries, to inform its members and the public of some issues affecting the libraries, and to provide assistance for the further enrichment of the library's collections and programs.

To accomplish these goals, Friends of HCL initiates projects and programs, and provides selective financial assistance where library needs cannot be met through normal revenue sources.

### Basis of Presentation

The accompanying financial statements are presented on the accrual basis in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Under U.S. GAAP, Friends of HCL is required to report information regarding its financial position and activities according to two classes of net assets:

Without donor restrictions – represent the portion of net assets that are not subject to donor restriction and in which management and the Board of Directors has discretion as to use. This includes \$743,115 and \$675,729, respectively, of funds designated by the Board of Directors as a quasi-endowment fund for library collections at December 31, 2020 and 2019.

With donor restrictions – represent the portion of net assets that arise from contributions that are restricted by donors for specific purposes or time periods, or to be retained in perpetuity for specific purposes as determined by the donor.

### Revenue and Support

Friends of HCL recognizes contributions when cash, securities, unconditional promises to give, or other assets are committed by the donor. Conditional contributions - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

Federal and Minnesota grants are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. At December 31, 2019, contributions of \$88,465 have not been recognized in the accompanying financial statements because the conditions have not been met. There were no contributions that had not been recognized due to conditions at December 31, 2020.

Contributions are recorded as support without donor restrictions or support with donor restrictions, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Restricted contributions whose restrictions are met in the same reporting period are recorded as support without donor restrictions.

# FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2020 and 2019

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

Revenue and Support, (continued)

Program revenue consists of sponsorships and ticket sales for the Pen Pals series, which is an author lecture series. Friends of HCL recognizes the Pen Pals revenue when the performance obligation of holding an author lecture occurs. If payment is received for multiple lectures, the payment is allocated to revenue on a pro-rata basis as the lectures occur. Payments received in advance of the performance obligation are recorded as deferred revenue until the performance obligation is met.

In-Kind Contributions

Donated services are recognized as contributions if they (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by Friends of HCL. Donated materials are valued at fair value at the date of donation.

A number of volunteers have made significant contributions of their time to Friends of HCL to help with programs and activities. The value of this contributed time is not reflected in the financial statements as such volunteer time does not meet the criteria for recognition under U.S. GAAP.

Cash

Cash is defined as cash in checking and savings accounts. Friends of HCL maintains checking and savings accounts at one financial institution. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, Friends of HCL's funds may exceed the insured limits.

Promises to Give

Unconditional promises to give are recognized at net realizable value if due within one year, and at net present value if due over one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Investments

Investments are recorded at fair value. The fair value of investments is based on quoted market prices, where available. Net investment income is reported in the statement of activities and consists of interest and dividend income, realized and unrealized gains and losses, less external and direct internal investment expenses. Interest and dividends are recorded when earned and unrealized gains and losses are recorded based on the fair value of the investment. Net investment income, including gains and losses on investments, is recorded as increases or decreases in net assets without donor restrictions unless its use is limited by donor-imposed restrictions or laws. The investments are exposed to various risks, such as interest rate, market, and credit risks.

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY**

Notes to the Financial Statements

December 31, 2020 and 2019

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

Fair Value Measurements

Fair value measurement standards define fair value, establish a framework for measuring fair value, establish a fair value hierarchy based on the quality of inputs used to measure fair value, and require expanded disclosures about fair value measurements. Friends of HCL records its investments at fair value. In accordance with the related standards, Friends of HCL has categorized its investments, based on the priority of the inputs of the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

**Level 1** – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that Friends of HCL has the ability to access.

**Level 2** – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. The corporate bonds and notes held by Friends of HCL were valued based on inputs from brokers and dealers in secondary markets.

**Level 3** – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity’s own assumptions, as there is little, if any, related market activity. Friends of HCL does not have any level 3 assets or liabilities.

If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Equipment, Website and Depreciation

Equipment and website purchases greater than \$1,000 are capitalized at cost and donated equipment and website is capitalized at fair value. Equipment and website costs are being depreciated over the estimated useful lives of the assets using straight-line method of depreciation. The estimated useful lives were as follows:

Equipment	3-10 years
Website	3 years

# FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2020 and 2019

## (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

### Concentrations of Credit Risk

Financial instruments that potentially subject Friends of HCL to concentrations of credit risk consist principally of promises to give. Management believes concentrations of credit risk with respect to promises to give are limited due to their nature. As of December 31, 2020 and 2019, management believes Friends of HCL had no significant concentration of credit risk.

### Advertising Costs

Advertising costs are expensed when incurred. Total advertising costs were \$4,203 and \$4,933 for the years ended December 31, 2020 and 2019, respectively.

### Functional Allocation of Expenses

The costs of providing programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Certain categories of expenses are attributable to more than one program or supporting function. As a result, certain expenses require allocation on a reasonable basis that is consistently applied. Expenses that are allocated include salaries, payroll taxes, employee benefits, occupancy, and depreciation. Such expenses are allocated based on staff time and efforts.

### Tax Exempt Status

Friends of HCL is designated as a non-profit organization and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Minnesota Statute.

It is the policy of Friends of HCL, in accordance with U.S. GAAP, to assess any uncertain tax positions and, if necessary, record a liability and related income tax expense for any uncertain tax positions. Management has analyzed the tax positions taken by Friends of HCL and has concluded that as of December 31, 2020 and 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

### Subsequent Events

Management has evaluated subsequent events for potential recognition and disclosure through May 27, 2021, the date which the financial statements were available for issue.

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY**

Notes to the Financial Statements

December 31, 2020 and 2019

(2) **PROMISES TO GIVE**

Promises to give consist of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Due in less than one year	\$ 67,134	79,214
Due in one to five years	<u>-</u>	<u>25,000</u>
Total	\$ <u>67,134</u>	<u>104,214</u>

(3) **EQUIPMENT AND WEBSITE**

Equipment and website consist of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Equipment	\$ 36,038	36,038
Website	79,300	40,000
Accumulated depreciation	<u>(68,872)</u>	<u>(66,158)</u>
Total	\$ <u>46,466</u>	<u>9,880</u>

(4) **LIQUIDITY AND FINANCIAL ASSETS**

Friends of HCL regularly monitors liquidity required to meet its operating needs, while also striving to maximize the investment of its available funds. Friends of HCL has various sources of liquidity at its disposal, including cash. Monthly cash requirements are in the business checking and savings accounts. Cash in excess of those requirements are moved into investments to maximize earnings. Board designated book endowment funds are not available for operation needs unless approved by the Board.

The following table reflects the Friends of HCL's financial assets as of December 31, 2020 and 2019, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date.

	<u>2020</u>	<u>2019</u>
Cash	\$ 567,572	2,195,475
Promises to give	67,134	104,214
Investments	<u>4,636,605</u>	<u>2,773,407</u>
Total financial assets	5,271,311	5,073,096
Less amounts not available to be used within one year:		
Board designated book endowment	( 743,115)	( 675,729)
Donor restricted for perpetuity	( 580,135)	( 579,535)
Donor restricted for use and time	<u>( 727,802)</u>	<u>( 580,089)</u>
Financial assets available within one year to meet cash needs for general expenditures	\$ <u>3,220,259</u>	<u>3,237,743</u>

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY**

Notes to the Financial Statements

December 31, 2020 and 2019

(5) **INVESTMENTS**

Investments are comprised of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Money market	\$ 169,422	75,280
Corporate bonds and notes	45,128	70,397
Common stock	-	2,229
Mutual funds:		
Fixed income	1,731,104	990,588
Equity funds	2,465,048	1,474,281
Real estate	<u>225,903</u>	<u>160,632</u>
Total	\$ <u>4,636,605</u>	<u>2,773,407</u>

(6) **FAIR VALUE MEASUREMENTS**

The following tables present Friends of HCL's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2020 and 2019:

	<u>2020</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market	\$ 169,422	-	-	169,422
Corporate bonds and notes	-	45,128	-	45,128
Mutual funds:				
Fixed income	1,731,104	-	-	1,731,104
Equity funds	2,465,048	-	-	2,465,048
Real estate	<u>225,903</u>	-	-	<u>225,903</u>
Total	\$ <u>4,591,477</u>	<u>45,128</u>	<u>-</u>	<u>4,636,605</u>
	<u>2019</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market	\$ 75,280	-	-	75,280
Corporate bonds and notes	-	70,397	-	70,397
Common stock	2,229	-	-	2,229
Mutual funds:				
Fixed income	990,588	-	-	990,588
Equity funds	1,474,281	-	-	1,474,281
Real estate	<u>160,632</u>	-	-	<u>160,632</u>
Total	\$ <u>2,703,010</u>	<u>70,397</u>	<u>-</u>	<u>2,773,407</u>

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY**

Notes to the Financial Statements

December 31, 2020 and 2019

(7) **NET ASSETS WITH DONOR RESTRICTION**

Net assets were released from donor restrictions by incurring expenses that satisfy the restricted purpose or other events specified by the donors. Net assets released from restriction were comprised of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Satisfaction of purpose restrictions:		
Doty Fund	\$ 25,000	25,000
Childrens programming	-	5,000
Book collections	33,103	23,828
Local libraries	30,350	-
Kesti Book Fund	-	1,000
Nature and environmental programming	-	35,000
Literacy Fund	100,000	100,000
Local friends	78,346	124,253
Talk of the Stacks	-	20,000
Various small programs	-	1,200
Endowment fund appropriation	<u>28,042</u>	<u>35,128</u>
Total net assets released from restrictions	\$ <u>294,841</u>	<u>370,409</u>

Net assets with donor restriction are restricted for the following purposes as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purposes:		
Cole Fund	\$ 1,984	1,456
Literacy Fund	546,500	646,500
Special collections and digitization	53,369	78,972
Doty Fund	25,000	50,000
Senior outreach	11,616	-
Local friends groups	137,639	210,519
Kesti Book Fund	10,691	9,589
Local libraries	8,524	5,360
Various small programs	<u>3,300</u>	<u>2,219</u>
	<u>798,623</u>	<u>1,004,615</u>
Endowment fund:		
Funds to be held in perpetuity	580,135	579,535
Earnings subject to appropriation and restricted to collection acquisitions	<u>159,788</u>	<u>92,690</u>
	<u>739,923</u>	<u>672,225</u>
Total net assets with donor restrictions	\$ <u>1,538,546</u>	<u>1,676,840</u>



# FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2020 and 2019

## (8) BOOK ENDOWMENT

Friends of HCL's endowment fund was established for the purpose of augmenting the library's annual book budget. A portion of income from the invested funds is supplied to the library each year. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as an endowment. As required by U.S. 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 Friends of the Hennepin County Library has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, Friends of HCL classifies contributions to be held in perpetuity as net assets with donor restrictions as the original value of the gifts to the endowment and the value of subsequent gifts to the endowment. The remaining portion of donor-restricted endowment funds, if any that are not classified as to be held in perpetuity, are classified as purpose restricted until those amounts are appropriated for expenditure by Friends of HCL.

In accordance with UPMIFA, Friends of HCL 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 Friends of HCL 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 Friends of HCL
- 7) The investment policies of Friends of HCL

### Investment Objectives and Strategies

Friends of HCL has adopted an investment policy to provide guidelines for investing endowment assets. Under this policy, as approved by the Finance Committee of the Board of Directors, the endowment assets are invested in a manner that is intended to maintain the purchasing power of the current assets and all future contributions, maximize return within reasonable and prudent levels of risk, and maintain an appropriate asset allocation based on a total return policy that is compatible with a flexible spending policy. To achieve these objectives, Friends of HCL follows an asset diversification plan, sets performance benchmarks for investment managers, and has established various asset quality and limitations thresholds. Actual returns in any given year may vary from this amount.

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY**

Notes to the Financial Statements

December 31, 2020 and 2019

(8) **BOOK ENDOWMENT, (continued)**

Fund with Deficiencies

From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor requires Friends of HCL to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2020 and 2019, in the donor-restricted endowment funds.

Endowment net asset composition for the years ended December 31, 2020 and 2019 are as follows:

	2020		
	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds:			
Original gift amounts to be held in perpetuity	\$ -	580,135	580,135
Accumulated investment income	-	159,788	159,788
Board-designated endowment funds	<u>743,115</u>	<u>-</u>	<u>743,115</u>
Total funds	<u>\$ 743,115</u>	<u>739,923</u>	<u>1,483,038</u>
	2019		
	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds:			
Original gift amounts to be held in perpetuity	\$ -	579,535	579,535
Accumulated investment income	-	92,690	92,690
Board-designated endowment funds	<u>675,729</u>	<u>-</u>	<u>675,729</u>
Total funds	<u>\$ 675,729</u>	<u>672,225</u>	<u>1,347,954</u>

The following is a summary of endowment funds subject to the UPMIFA for the years ended December 31, 2020 and 2019:

	2020		
	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, January 1, 2020	\$ 675,729	672,225	1,347,954
Investment income, net	95,554	95,140	190,694
Contributions	-	600	600
Appropriations of endowment assets for expenditure	( <u>28,168</u> )	( <u>28,042</u> )	( <u>56,210</u> )
Endowment net assets, December 31, 2020	<u>\$ 743,115</u>	<u>739,923</u>	<u>1,483,038</u>

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY**

Notes to the Financial Statements

December 31, 2020 and 2019

(8) **BOOK ENDOWMENT, (continued)**

	2019		
	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, January 1, 2019	\$ 607,812	582,264	1,190,076
Investment income, net	104,171	99,857	204,028
Contributions	-	25,231	25,231
Appropriations of endowment assets for expenditure	( 36,254)	( 35,127)	( 71,381)
Endowment net assets, December 31, 2019	\$ <u>675,729</u>	<u>672,225</u>	<u>1,347,954</u>

(9) **FRIENDS COORDINATION**

Friends of HCL coordinates local friends of libraries groups. The local friends groups are fundraising entities who are collaborating with Friends of HCL to create a comprehensive and unified library support system in Hennepin County. In addition to managing a joint membership program, Friends of HCL recognizes contributions and book sales proceeds on behalf of the local groups as restricted revenues, and holds assets in net assets with donor restrictions for use in support of Hennepin County Library. The local friends funds totaled \$137,639 and \$210,519 for the years ended December 31, 2020 and 2019, respectively, and are included in net assets with donor restrictions.

(10) **RELATED PARTY**

As noted in Note 1, Friends of HCL is affiliated with the Hennepin County Library in various economic relationships. In addition, Friends of HCL provided library grants totaling \$1,500,000 and \$1,268,015 during the years ended December 31, 2020 and 2019, respectively.

(11) **403(B) EMPLOYEE RETIREMENT PLAN**

Friends of HCL sponsors a 403(b) retirement savings plan for its employees. Employees who work 1,000 hours annually are eligible. Friends of HCL makes contributions into the plan equal to 3% of each employee's total annual compensation. Matching contributions to the plan were \$18,973 and \$16,856 during the years ended December 31, 2020 and 2019, respectively.

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY**

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(12) **DONATED SERVICES AND MATERIALS**

The office space and storage areas of Friends of HCL are provided by the Hennepin County Library at no charge. This space is used for the operations of Friends of HCL. In addition, Friends of HCL received donated catering for events and donated consulting related to its database management system. Donated services and materials were as follow for 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Occupancy and storage	\$ 64,366	64,365
Consulting	15,000	-
Catering	<u>-</u>	<u>7,534</u>
Total	<u>\$ 79,366</u>	<u>71,899</u>

(13) **COVID-19**

The Covid-19 pandemic is having broad and negative impacts on commerce around the world. During 2020, Friends of HCL was impacted by Covid-19 as operations and program events were unable to be provided at the same level as would normally be provided. Friends of HCL temporarily suspended the in-person PenPals program and has implemented virtual PenPals events. Friends of HCL has weathered the impact of Covid-19 through generous support from its many donors and management of its liquid assets. The extent of the impact of Covid-19 on Friends of HCL's operational and financial performance will depend on certain developments, including the duration and spread of outbreaks and its impact on Friends of HCL's constituents and employees. The future financial impact of Covid-19 on Friends of HCL and duration of any economic factors or uncertainties cannot be reasonably estimated at this time.