

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Financial Statements

December 31, 2021 and 2020



FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Table of Contents

Independent Auditor’s Report.....1-2

Statements of Financial Position.....3

Statements of Activities4 – 5

Statements of Functional Expenses.....6 – 7

Statements of Cash Flows8

Notes to the Financial Statements.....9 – 18



600 INWOOD AVENUE NORTH
SUITE 160
OAKDALE, MN 55128
TEL: (651) 636-3806
FAX: (651) 636-1136
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 (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Friends of the Hennepin County Library and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Friends of the Hennepin County Library's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

INDEPENDENT AUDITOR'S REPORT, continued

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Friends of the Hennepin County Library's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Friends of the Hennepin County Library's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

May 26, 2022

Akins Henke and Company

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Statements of Financial Position

December 31, 2021 and 2020

<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
Current assets:		
Cash	\$ 1,035,540	567,572
Promises to give	42,387	67,134
Prepaid expenses	37,057	44,026
Total current assets	<u>1,114,984</u>	<u>678,732</u>
Noncurrent assets:		
Investments	6,758,571	4,636,605
Equipment and website, net	63,401	46,466
Total noncurrent assets	<u>6,821,972</u>	<u>4,683,071</u>
TOTAL ASSETS	\$ <u>7,936,956</u>	<u>5,361,803</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 27,905	9,589
Accrued compensation	41,864	47,861
Deferred program fees	262,141	207,654
Total current liabilities	<u>331,910</u>	<u>265,104</u>
Net assets:		
Without donor restrictions:		
Board designated	759,620	743,115
Undesignated	5,475,459	2,815,038
Total without donor restrictions	<u>6,235,079</u>	<u>3,558,153</u>
With donor restrictions	<u>1,369,967</u>	<u>1,538,546</u>
Total net assets	<u>7,605,046</u>	<u>5,096,699</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>7,936,956</u>	<u>5,361,803</u>

See accompanying notes to the financial statements.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Statement of Activities

For the Year Ended December 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE:			
Corporate, foundation and government grants	\$ 593,383	100,000	693,383
In-kind contributions	64,365	-	64,365
Memberships, individual gifts and memorials	4,565,231	8,325	4,573,556
Program revenue	243,433	-	243,433
Investment income	388,325	71,647	459,972
Total Support and Revenue	<u>5,854,737</u>	<u>179,972</u>	<u>6,034,709</u>
NET ASSETS RELEASED FROM RESTRICTIONS:			
Restrictions satisfied	<u>348,551</u>	<u>(348,551)</u>	<u>-</u>
EXPENSES:			
Program services	2,742,119	-	2,742,119
General and administrative	130,844	-	130,844
Fundraising	653,399	-	653,399
Total Expenses	<u>3,526,362</u>	<u>-</u>	<u>3,526,362</u>
CHANGE IN NET ASSETS	2,676,926	(168,579)	2,508,347
NET ASSETS - BEGINNING OF YEAR	<u>3,558,153</u>	<u>1,538,546</u>	<u>5,096,699</u>
NET ASSETS - END OF YEAR	<u>\$ 6,235,079</u>	<u>1,369,967</u>	<u>7,605,046</u>

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 Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE:			
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>
 NET ASSETS RELEASED FROM RESTRICTIONS:			
Restrictions satisfied	<u>294,841</u>	<u>(294,841)</u>	<u>-</u>
 EXPENSES:			
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>
 CHANGE IN NET ASSETS	 451,828	 (138,294)	 313,534
 NET ASSETS - BEGINNING OF YEAR	 <u>3,106,325</u>	 <u>1,676,840</u>	 <u>4,783,165</u>
 NET ASSETS - END OF YEAR	 <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 Functional Expenses
For the Year Ended December 31, 2021

	<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	\$ 63,123	235,331	83,464	381,918	59,406	268,662	328,068	709,986
Payroll taxes	4,350	16,208	5,747	26,305	4,083	18,428	22,511	48,816
Employee benefits	6,975	26,057	9,136	42,168	2,634	28,298	30,932	73,100
Total personnel costs	<u>74,448</u>	<u>277,596</u>	<u>98,347</u>	<u>450,391</u>	<u>66,123</u>	<u>315,388</u>	<u>381,511</u>	<u>831,902</u>
Accounting/audit	-	-	-	-	18,669	-	18,669	18,669
Insurance	-	615	-	615	3,341	-	3,341	3,956
Processing fees	-	-	16,842	16,842	6,784	28,962	35,746	52,588
Occupancy	5,791	21,481	7,617	34,889	5,375	24,101	29,476	64,365
Marketing	-	3,005	-	3,005	1,091	47,814	48,905	51,910
Office supplies	-	-	-	-	1,605	725	2,330	2,330
Software and technology	-	11,353	7,420	18,773	4,396	13,222	17,618	36,391
Dues and subscriptions	130	29	-	159	2,797	-	2,797	2,956
Consultants	19,800	18,680	5,790	44,270	16,926	14,400	31,326	75,596
Meetings and conferences	-	52	66	118	2,019	1,662	3,681	3,799
Travel	-	100	1,890	1,990	33	385	418	2,408
Library grants	2,005,000	-	-	2,005,000	-	-	-	2,005,000
Postage and printing	-	37,064	3,738	40,802	-	197,909	197,909	238,711
Program events	-	3,556	109,668	113,224	-	192	192	113,416
Depreciation	1,967	7,455	2,619	12,041	1,685	8,639	10,324	22,365
Total Expenses	<u>\$ 2,107,136</u>	<u>380,986</u>	<u>253,997</u>	<u>2,742,119</u>	<u>130,844</u>	<u>653,399</u>	<u>784,243</u>	<u>3,526,362</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	-	3,564	-	3,564	188	54,797	54,985	58,549
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	-	178,122	178,122	195,321
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 LIBRARYStatements of Cash Flows
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,508,347	313,534
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	22,365	2,715
Realized and unrealized gains on investments	(423,056)	(463,421)
Permanently restricted contributions received	(1,500)	(600)
Changes in assets and liabilities:		
Decrease in promises to give	24,747	37,080
(Increase) decrease in prepaid expenses	6,969	(11,797)
Increase (decrease) in accounts payable	18,316	(81,691)
Increase (decrease) in accrued compensation	(5,997)	15,080
Increase (decrease) in deferred revenue	54,487	(325)
Net cash provided by (used for) operating activities	<u>2,204,678</u>	<u>(189,425)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment and website	(39,300)	(39,301)
Purchase of investments	(2,156,224)	(1,447,881)
Proceeds from sale of investments	457,314	48,104
Net cash used for investing activities	<u>(1,738,210)</u>	<u>(1,439,078)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently restricted contributions received	<u>1,500</u>	<u>600</u>
INCREASE (DECREASE) IN CASH	467,968	(1,627,903)
CASH - BEGINNING OF YEAR	<u>567,572</u>	<u>2,195,475</u>
CASH - END OF YEAR	<u>\$ 1,035,540</u>	<u>567,572</u>

See accompanying notes to the financial statements.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2021 and 2020

(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 \$759,620 and \$743,115, respectively, of funds designated by the Board of Directors as a quasi-endowment fund for library collections at December 31, 2021 and 2020.

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.

Certain Federal and Minnesota grants are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. There were no contributions that had not been recognized due to conditions at December 31, 2020. At December 31, 2021, contributions of \$262,228 have not been recognized in the accompanying financial statements because the conditions have not been met.

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, 2021 and 2020

(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, 2021 and 2020

(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

Advertising Costs

Advertising costs are expensed when incurred. Total advertising costs were \$51,910 and \$58,549 for the years ended December 31, 2021 and 2020, respectively.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2021 and 2020

(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, 2021 and 2020, management believes Friends of HCL had no significant concentration of credit risk.

Reclassification

Certain 2020 amounts have been reclassified for comparability purposes with those of 2021.

Functional Allocation of Expenses

The costs of providing programs and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. 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, 2021 and 2020, 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 26, 2022, the date which the financial statements were available for issue.

(2) **EQUIPMENT AND WEBSITE**

Equipment and website consist of the following at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Equipment	\$ 36,038	36,038
Website	118,600	79,300
Accumulated depreciation	(91,237)	(68,872)
Total	\$ <u>63,401</u>	<u>46,466</u>

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2021 and 2020

(3) 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, 2021 and 2020, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date.

	<u>2021</u>	<u>2020</u>
Cash	\$ 1,035,540	567,572
Promises to give	42,387	67,134
Investments	<u>6,758,571</u>	<u>4,636,605</u>
Total financial assets	7,836,498	5,271,311
Less amounts not available to be used within one year:		
Board designated book endowment	(759,620)	(743,115)
Donor restricted for perpetuity	(581,635)	(580,135)
Donor restricted for use and time	<u>(608,332)</u>	<u>(727,802)</u>
Financial assets available within one year to meet cash needs for general expenditures	\$ <u>5,886,911</u>	<u>3,220,259</u>

(4) INVESTMENTS

Investments are comprised of the following at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Money market	\$ 183,102	169,422
Corporate bonds and notes	-	45,128
Mutual funds:		
Fixed income	2,766,996	1,731,104
Equity funds	3,300,262	2,465,048
Real estate	<u>508,211</u>	<u>225,903</u>
Total	\$ <u>6,758,571</u>	<u>4,636,605</u>

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2021 and 2020

(5) **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, 2021 and 2020:

	2021			
	Level 1	Level 2	Level 3	Total
Money market	\$ 183,102	-	-	183,102
Mutual funds:				
Fixed income	2,766,996	-	-	2,766,996
Equity funds	3,300,262	-	-	3,300,262
Real estate	<u>508,211</u>	-	-	<u>508,211</u>
Total	<u>\$ 6,758,571</u>	<u>-</u>	<u>-</u>	<u>6,758,571</u>
	2020			
	Level 1	Level 2	Level 3	Total
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>

(6) **NET ASSETS WITH DONOR RESTRICTIONS**

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, 2021 and 2020:

	2021	2020
Satisfaction of purpose restrictions:		
Doty Fund	\$ 25,000	25,000
Book collections	53,369	33,103
Local libraries	88,524	30,350
Kesti Book Fund	1,380	-
Literacy Fund	100,000	100,000
Local friends	9,671	78,346
Senior outreach	11,616	-
Various small programs	3,737	-
Endowment fund appropriation	<u>55,254</u>	<u>28,042</u>
Total net assets released from restrictions	<u>\$ 348,551</u>	<u>294,841</u>

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2021 and 2020

(6) **NET ASSETS WITH DONOR RESTRICTIONS, (continued)**

Net assets with donor restriction are restricted for the following purposes as of December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purposes:		
Literacy Fund	\$ 446,500	546,500
Cole Fund	-	1,984
Special collections and digitization	-	53,369
Doty Fund	-	25,000
Senior outreach	-	11,616
Local friends groups	134,108	137,639
Kesti Book Fund	9,338	10,691
Local libraries	20,000	8,524
Various small programs	<u>2,205</u>	<u>3,300</u>
	<u>612,151</u>	<u>798,623</u>
Endowment fund:		
Funds to be held in perpetuity	581,635	580,135
Earnings subject to appropriation and restricted to collection acquisitions	<u>176,181</u>	<u>159,788</u>
	<u>757,816</u>	<u>739,923</u>
Total net assets with donor restrictions	\$ <u>1,369,967</u>	<u>1,538,546</u>

(7) **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.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2021 and 2020

(7) **BOOK ENDOWMENT, (continued)**

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.

Endowment net asset composition for the years ended December 31, 2021 and 2020 are as follows:

	2021		
	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds:			
Original gift amounts to be held in perpetuity	\$ -	581,635	581,635
Accumulated investment income	-	176,181	176,181
Board-designated endowment funds	<u>759,620</u>	-	<u>759,620</u>
Total funds	<u>\$ 759,620</u>	<u>757,816</u>	<u>1,517,436</u>
	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>743,115</u>
Total funds	<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, 2021 and 2020

(7) **BOOK ENDOWMENT, (continued)**

The following is a summary of endowment funds subject to the UPMIFA for the years ended December 31, 2021 and 2020:

	2021		
	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, January 1, 2021	\$ 743,115	739,923	1,483,038
Investment income, net	71,948	71,647	143,595
Contributions	-	1,500	1,500
Appropriations of endowment assets for expenditure	(55,443)	(55,254)	(110,697)
Endowment net assets, December 31, 2021	<u>\$ 759,620</u>	<u>757,816</u>	<u>1,517,436</u>
	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	(28,168)	(28,042)	(56,210)
Endowment net assets, December 31, 2020	<u>\$ 743,115</u>	<u>739,923</u>	<u>1,483,038</u>

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, 2021 and 2020, in the donor-restricted endowment funds.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2021 and 2020

(8) **FRIENDS COORDINATION**

Friends of HCL coordinates volunteer local friends chapters associated with individual libraries. The local friends chapters are local volunteer fundraising entities who work in partnership with Friends of HCL to help create a comprehensive and unified approach to library support 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 chapters as restricted revenues and holds assets in net assets with donor restrictions for use in support of Hennepin County Library. The local friends advised funds totaled \$134,108 and \$137,639 for the years ended December 31, 2021 and 2020, respectively, and are included in net assets with donor restrictions.

(9) **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 \$2,005,000 and \$1,500,000 during the years ended December 31, 2021 and 2020, respectively.

(10) **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 \$20,975 and \$18,973 during the years ended December 31, 2021 and 2020, respectively.

(11) **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 consulting related to its database management system. Donated services and materials were as follow for 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Occupancy and storage	\$ 64,365	64,366
Consulting	<u>-</u>	<u>15,000</u>
Total	<u>\$ 64,365</u>	<u>79,366</u>