

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Financial Statements

December 31, 2018 and 2017



FRIENDS OF THE HENNEPIN COUNTY LIBRARY

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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, 2018 and 2017, 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.

INDEPENDENT AUDITOR'S REPORT, continued

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, 2018 and 2017, 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 23, 2019

Akins Henke and Company

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Statements of Financial Position

December 31, 2018 and 2017

| <u>ASSETS</u> | <u>2018</u> | <u>2017</u> |
|--|--------------------------------|-----------------------------|
| Current Assets: | | |
| Cash and cash equivalents | \$ 803,692 | 785,971 |
| Grants receivable | 6,933 | 6,200 |
| Promises to give | 421,450 | 276,118 |
| Prepaid expenses | 54,418 | 45,176 |
| Total Current Assets | <u>1,286,493</u> | <u>1,113,465</u> |
| Noncurrent Assets: | | |
| Promises to give | 47,500 | 245,000 |
| Investments | 2,348,913 | 2,455,978 |
| Equipment and website, net | 15,128 | 20,787 |
| Total Noncurrent Assets | <u>2,411,541</u> | <u>2,721,765</u> |
| TOTAL ASSETS | \$ <u>3,698,034</u> | <u>3,835,230</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Current Liabilities: | | |
| Accounts payable | \$ 12,161 | 30,825 |
| Grants payable | - | 200,000 |
| Accrued compensation | 21,916 | 24,070 |
| Deferred program fees | 183,557 | 157,807 |
| Total Current Liabilities | <u>217,634</u> | <u>412,702</u> |
| Net Assets: | | |
| Without donor restrictions: | | |
| Board designated | 607,812 | 676,395 |
| Undesignated | 1,048,064 | 1,092,750 |
| Total Without Donor Restrictions | <u>1,655,876</u> | <u>1,769,145</u> |
| With donor restrictions | 1,824,524 | 1,653,383 |
| Total Net Assets | <u>3,480,400</u> | <u>3,422,528</u> |
| TOTAL LIABILITIES AND NET ASSETS | \$ <u>3,698,034</u> | <u>3,835,230</u> |

See accompanying notes to the financial statements.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Statement of Activities

For the Year Ended December 31, 2018

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---------------------------------------|------------------------------------|-----------------------------|
| SUPPORT AND REVENUE: | | | |
| Corporate, foundation and government grants | \$ 644,313 | 222,920 | 867,233 |
| In-kind contributions | 80,213 | - | 80,213 |
| Memberships, individual gifts and memorials | 1,259,013 | 261,032 | 1,520,045 |
| Program revenue | 261,924 | - | 261,924 |
| Investment loss | (83,073) | (44,594) | (127,667) |
| Total Support and Revenue | <u>2,162,390</u> | <u>439,358</u> | <u>2,601,748</u> |
| NET ASSETS RELEASED FROM RESTRICTIONS: | | | |
| Restrictions satisfied by expenditures | <u>268,217</u> | <u>(268,217)</u> | <u>-</u> |
| EXPENSES: | | | |
| Program services | 1,885,173 | - | 1,885,173 |
| General and administrative | 98,626 | - | 98,626 |
| Fundraising | 560,077 | - | 560,077 |
| Total Expenses | <u>2,543,876</u> | <u>-</u> | <u>2,543,876</u> |
| CHANGE IN NET ASSETS | (113,269) | 171,141 | 57,872 |
| NET ASSETS - BEGINNING OF YEAR | <u>1,769,145</u> | <u>1,653,383</u> | <u>3,422,528</u> |
| NET ASSETS - END OF YEAR | <u><u>\$ 1,655,876</u></u> | <u><u>1,824,524</u></u> | <u><u>3,480,400</u></u> |

See accompanying notes to the financial statements.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Statement of Activities

For the Year Ended December 31, 2017

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---------------------------------------|------------------------------------|------------------|
| SUPPORT AND REVENUE: | | | |
| Corporate, foundation and government grants | \$ 576,662 | 94,040 | 670,702 |
| In-kind contributions | 75,315 | - | 75,315 |
| Memberships, individual gifts and memorials | 1,144,793 | 3,722 | 1,148,515 |
| Program revenue | 291,162 | - | 291,162 |
| Investment income | 170,486 | 86,928 | 257,414 |
| Total Support and Revenue | <u>2,258,418</u> | <u>184,690</u> | <u>2,443,108</u> |
| NET ASSETS RELEASED FROM RESTRICTIONS: | | | |
| Restrictions satisfied by expenditures | <u>284,516</u> | <u>(284,516)</u> | <u>-</u> |
| EXPENSES: | | | |
| Program services | 1,908,537 | - | 1,908,537 |
| General and administrative | 100,331 | - | 100,331 |
| Fundraising | 389,186 | - | 389,186 |
| Total Expenses | <u>2,398,054</u> | <u>-</u> | <u>2,398,054</u> |
| CHANGE IN NET ASSETS | 144,880 | (99,826) | 45,054 |
| NET ASSETS - BEGINNING OF YEAR | <u>1,624,265</u> | <u>1,753,209</u> | <u>3,377,474</u> |
| NET ASSETS - END OF YEAR | <u>\$ 1,769,145</u> | <u>1,653,383</u> | <u>3,422,528</u> |

See accompanying notes to the financial statements.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Statement of Functional Expenses
For the Year Ended December 31, 2018

| | <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 | \$ 56,811 | 150,636 | 64,556 | 272,003 | 48,764 | 149,361 | 198,125 | 470,128 |
| Payroll taxes | 3,968 | 10,528 | 4,505 | 19,001 | 3,407 | 10,436 | 13,843 | 32,844 |
| Employee benefits | 6,822 | 18,054 | 7,707 | 32,583 | 3,738 | 17,780 | 21,518 | 54,101 |
| Total personnel costs | <u>67,601</u> | <u>179,218</u> | <u>76,768</u> | <u>323,587</u> | <u>55,909</u> | <u>177,577</u> | <u>233,486</u> | <u>557,073</u> |
| Accounting/audit | - | - | - | - | 15,608 | - | 15,608 | 15,608 |
| Insurance | - | - | - | - | 2,736 | - | 2,736 | 2,736 |
| Processing fees | - | - | 11,969 | 11,969 | 4,309 | 11,123 | 15,432 | 27,401 |
| Occupancy | 7,811 | 20,707 | 8,870 | 37,388 | 6,460 | 20,517 | 26,977 | 64,365 |
| Marketing and education | 80 | 2,468 | - | 2,548 | 93 | 516 | 609 | 3,157 |
| Office supplies | 168 | 612 | 300 | 1,080 | 3,300 | 3,014 | 6,314 | 7,394 |
| Dues and subscriptions | 127 | 2,476 | - | 2,603 | 1,198 | 9,751 | 10,949 | 13,552 |
| Consultants | 9,305 | 70,016 | 14,528 | 93,849 | - | 111,588 | 111,588 | 205,437 |
| Meetings and conferences | 439 | 31 | 170 | 640 | 6,070 | 5,282 | 11,352 | 11,992 |
| Travel | - | 1,711 | 7,871 | 9,582 | 728 | 1,218 | 1,946 | 11,528 |
| Library grants | 1,143,147 | - | - | 1,143,147 | - | - | - | 1,143,147 |
| Postage and printing | 115 | 15,487 | 8,338 | 23,940 | 572 | 214,223 | 214,795 | 238,735 |
| Program events | 1,443 | 66,507 | 157,380 | 225,330 | - | 50 | 50 | 225,380 |
| Depreciation | 1,987 | 5,267 | 2,256 | 9,510 | 1,643 | 5,218 | 6,861 | 16,371 |
| Total Expenses | <u>\$ 1,232,223</u> | <u>364,500</u> | <u>288,450</u> | <u>1,885,173</u> | <u>98,626</u> | <u>560,077</u> | <u>658,703</u> | <u>2,543,876</u> |

See accompanying notes to the financial statements.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Statement of Functional Expenses
For the Year Ended December 31, 2017

| | <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 | \$ 55,828 | 137,195 | 53,513 | 246,536 | 49,531 | 128,024 | 177,555 | 424,091 |
| Payroll taxes | 3,928 | 9,640 | 3,735 | 17,303 | 3,274 | 9,028 | 12,302 | 29,605 |
| Employee benefits | 6,174 | 14,316 | 4,205 | 24,695 | 5,539 | 14,247 | 19,786 | 44,481 |
| Total personnel costs | <u>65,930</u> | <u>161,151</u> | <u>61,453</u> | <u>288,534</u> | <u>58,344</u> | <u>151,299</u> | <u>209,643</u> | <u>498,177</u> |
| Accounting/audit | - | - | - | - | 15,092 | - | 15,092 | 15,092 |
| Insurance | - | - | - | - | 2,758 | - | 2,758 | 2,758 |
| Processing fees | - | - | 13,352 | 13,352 | 3,620 | 9,097 | 12,717 | 26,069 |
| Occupancy | 8,518 | 20,821 | 7,940 | 37,279 | 7,538 | 19,548 | 27,086 | 64,365 |
| Marketing and education | - | 1,865 | 144 | 2,009 | 1,822 | - | 1,822 | 3,831 |
| Office supplies | - | 360 | 305 | 665 | 2,881 | 2,071 | 4,952 | 5,617 |
| Dues and subscriptions | - | 2,174 | - | 2,174 | 1,723 | 8,432 | 10,155 | 12,329 |
| Consultants | 6,375 | 33,566 | 14,439 | 54,380 | - | 32,175 | 32,175 | 86,555 |
| Meetings and conferences | - | 125 | 38 | 163 | 2,884 | 5,039 | 7,923 | 8,086 |
| Travel | - | 498 | 5,209 | 5,707 | 985 | 1,426 | 2,411 | 8,118 |
| Library grants | 1,275,418 | - | - | 1,275,418 | - | - | - | 1,275,418 |
| Postage and printing | - | 12,619 | 8,925 | 21,544 | 680 | 146,707 | 147,387 | 168,931 |
| Program events | - | 21,848 | 175,552 | 197,400 | - | 8,194 | 8,194 | 205,594 |
| Depreciation | 2,265 | 5,536 | 2,111 | 9,912 | 2,004 | 5,198 | 7,202 | 17,114 |
| Total Expenses | <u>\$ 1,358,506</u> | <u>260,563</u> | <u>289,468</u> | <u>1,908,537</u> | <u>100,331</u> | <u>389,186</u> | <u>489,517</u> | <u>2,398,054</u> |

See accompanying notes to the financial statements.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Statements of Cash Flows

For the Years Ended December 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|-----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 57,872 | 45,054 |
| Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities: | | |
| Depreciation | 16,371 | 17,114 |
| Realized and unrealized (gains) losses on investments | 155,903 | (229,354) |
| Permanently restricted contributions received | (600) | (2,105) |
| Changes in assets and liabilities: | | |
| (Increase) decrease in grants receivable | (733) | 14,600 |
| Decrease in promises to give | 52,168 | 242,580 |
| Increase in prepaid expenses | (9,242) | (14,907) |
| Increase (decrease) in accounts payable | (18,664) | 2,869 |
| Increase (decrease) in grants payable | (200,000) | 200,000 |
| Increase (decrease) in accrued compensation | (2,154) | 18,070 |
| Increase (decrease) in deferred revenue | 25,750 | (28,208) |
| Net cash provided by operating activities | <u>76,671</u> | <u>265,713</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of equipment | (10,712) | (1,022) |
| Purchases of investments | (75,767) | (85,822) |
| Proceeds from sale of investments | 26,929 | 24,913 |
| Net cash used for investing activities | <u>(59,550)</u> | <u>(61,931)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Permanently restricted contributions received | 600 | 2,105 |
| Net cash provided by financing activities | <u>600</u> | <u>2,105</u> |
| INCREASE IN CASH AND CASH EQUIVALENTS | 17,721 | 205,887 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | <u>785,971</u> | <u>580,084</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 803,692</u> | <u>785,971</u> |

See accompanying notes to the financial statements.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2018 and 2017

(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.

Adoption of New Accounting Standards

In August of 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14). The provisions of ASU 2016-14 are effective for fiscal years beginning after December 15, 2017. This standard has been adopted by Friends of HCL for 2018 and has been retroactively applied to 2017.

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 \$607,812 and \$676,395, respectively, of funds designated by the Board of Directors as a quasi-endowment funds for library collections at December 31, 2018 and 2017.

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

Under U.S. GAAP, contributions received, whether totally collected or to be paid over time, are recorded in their entirety as support when committed by the donor. Therefore, the timing of the collection of contributions may differ from the time in which the contributions are recorded as support.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2018 and 2017

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

Revenue and Support, (continued)

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. Friends of HCL has elected to present contributions with donor restrictions, which are fulfilled in the same time period, within the net asset without donor restrictions activity.

Program revenue consists of sponsorships and ticket sales for the Pen Pals series. Such revenue is recorded when the events occur and payments received in advance of the event are recorded as deferred revenue.

Cash and Cash Equivalents

For purposes of reporting cash flows, Friends of HCL considers all highly liquid debt instruments with an initial maturity of less than three months to be cash or cash equivalents. 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.

Grants Receivable

Grants receivables are stated at net realizable value. Grants receivable are due within 30 days of invoice date. Friends of HCL believes that all grants receivable are collectible and no allowance has been recorded as of December 31, 2018 and 2017. The determination for recording an allowance is based on management judgment considering historical information and Friends of HCL's policy of writing off accounts when management deems them not collectible.

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets or as decreases of liabilities or expenses, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Long-term promises to give are recorded at net present value using a discount rate commensurate with the risk associated with the promise to give. The interest rates used to discount future cash flows on the promises to give ranged from 1.0% to 3.0%.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2018 and 2017

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

Promises to Give, (continued)

As of December 31, 2018, 91% of promises to give were from three donors. As of December 31, 2017, 90% of promises to give were from one donor.

Investments

Investments are recorded at fair value. The fair value of investments is based on quoted market prices, where available. Net investment income (loss) 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 (loss), including gain 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.

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 |

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, 2018 and 2017, management believes Friends of HCL had no significant concentration of credit risk.

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.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2018 and 2017

(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, notes, and treasury bills 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.

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.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2018 and 2017

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

Advertising Costs

Advertising costs are expensed when incurred. Total advertising costs were \$3,157 and \$3,831 for the years ended December 31, 2018 and 2017, 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 presents 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 estimated 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, 2018 and 2017, 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 23, 2019, the date which the financial statements were available for issue.

(2) **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 and cash equivalents. 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 funds of \$607,812 are not available for operation needs unless approved by the Board.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2018 and 2017

(2) **LIQUIDITY AND FINANCIAL ASSETS, (continued)**

The following table reflects the Organization's financial assets as of December 31, 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date.

| | |
|-------------------------------|------------------|
| Cash and cash equivalents | \$ 803,692 |
| Grants and pledges receivable | 475,883 |
| Investments | <u>2,348,913</u> |
| Total financial assets | <u>3,628,488</u> |

Less amounts not available to be used
within one year:

| | |
|-----------------------------------|-------------------|
| Board designated book endowment | (607,812) |
| Donor restricted for perpetuity | (554,304) |
| Donor restricted for use and time | <u>(958,428)</u> |

Financial assets available within one
year to meet cash needs for general
expenditures

\$ 1,507,944

(3) **EQUIPMENT AND WEBSITE**

Equipment and website consist of the following at December 31, 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|--------------------------|------------------|-----------------|
| Equipment | \$ 34,198 | 23,486 |
| Website | 40,000 | 40,000 |
| Accumulated Depreciation | <u>(59,070)</u> | <u>(42,699)</u> |
| Total | <u>\$ 15,128</u> | <u>20,787</u> |

(4) **PROMISES TO GIVE**

Promises to give consist of the following at December 31, 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|--------------------------------|-------------------|-----------------|
| Due in Less than One Year | \$ 421,450 | 276,118 |
| Due in One to Five Years | 50,000 | 250,000 |
| Discount for Net Present Value | <u>(2,500)</u> | <u>(5,000)</u> |
| Total | <u>\$ 468,950</u> | <u>521,118</u> |

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2018 and 2017

(5) **INVESTMENTS**

Investments are comprised of the following at December 31, 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|---------------------------|---------------------|------------------|
| Money Market | \$ 1,525 | 1,870 |
| Corporate Bonds and Notes | - | 225,209 |
| Treasury Bills | 59,454 | - |
| Common Stock | - | 27,472 |
| Mutual Funds: | | |
| Fixed Income | 1,139,125 | 884,005 |
| Government Obligations | 95,807 | 115,479 |
| Equity Funds | 906,845 | 1,078,615 |
| Real Estate | 117,765 | 91,271 |
| Commodities | <u>28,392</u> | <u>32,057</u> |
| Total | \$ <u>2,348,913</u> | <u>2,455,978</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, 2018 and 2017:

| | <u>2018</u> | | | |
|------------------------|---------------------|----------------|----------------|------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Money Market | \$ 1,525 | - | - | 1,525 |
| Treasury Bills | - | 59,454 | - | 59,454 |
| Mutual Funds: | | | | |
| Fixed Income | 1,139,125 | - | - | 1,139,125 |
| Government Obligations | 95,807 | - | - | 95,807 |
| Equity Funds | 906,845 | - | - | 906,845 |
| Real Estate | 117,765 | - | - | 117,765 |
| Commodities | <u>28,392</u> | - | - | <u>28,392</u> |
| Total | \$ <u>2,289,459</u> | <u>59,454</u> | - | <u>2,348,913</u> |

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2018 and 2017

(6) **FAIR VALUE MEASUREMENTS, (continued)**

| | 2017 | | | Total |
|---------------------------|---------------------|----------------|----------|------------------|
| | Level 1 | Level 2 | Level 3 | |
| Money Market | \$ 1,870 | - | - | 1,870 |
| Corporate Bonds and Notes | - | 225,209 | - | 225,209 |
| Common Stock | 27,472 | - | - | 27,472 |
| Mutual Funds: | | | | |
| Fixed Income | 884,005 | - | - | 884,005 |
| Government Obligations | 115,479 | - | - | 115,479 |
| Equity Funds | 1,078,615 | - | - | 1,078,615 |
| Real Estate | 91,271 | - | - | 91,271 |
| Commodities | <u>32,057</u> | <u>-</u> | <u>-</u> | <u>32,057</u> |
| Total | \$ <u>2,230,769</u> | <u>225,209</u> | <u>-</u> | <u>2,455,978</u> |

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

Net assets with donor restriction are restricted for the following purposes as of December 31, 2018 and 2017:

| | 2018 | 2017 |
|---|---------------------|------------------|
| Subject to expenditure for specified purposes: | | |
| Cole fund | \$ 5,749 | 5,639 |
| Literacy fund | 746,500 | 846,500 |
| Special collections and digitization | 102,800 | - |
| Doty fund | 75,000 | - |
| Nature and environmental programming | 35,000 | - |
| Local friends | 243,299 | 141,472 |
| Kesti book fund | 10,521 | 10,203 |
| Talk of the Stacks | 20,000 | - |
| Various small programs | 3,391 | 2,187 |
| Endowment fund: | | |
| Funds to be held in perpetuity | 554,304 | 553,704 |
| Earnings subject to appropriation and restricted to collection acquisitions | <u>27,960</u> | <u>93,678</u> |
| Total Net Assets With Donor Restrictions | \$ <u>1,824,524</u> | <u>1,653,383</u> |

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2018 and 2017

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

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, 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|----------------|
| Satisfaction of purpose restrictions: | | |
| Doty fund | \$ 25,000 | - |
| Childrens programming | - | 4,000 |
| Book collections | - | 15,000 |
| Kesti book fund | 1,000 | 1,000 |
| Literacy fund | 100,000 | 150,000 |
| Local friends | 121,093 | 100,320 |
| Endowment fund appropriation | <u>21,124</u> | <u>14,196</u> |
| Total Net Assets Released From Restrictions | <u>\$ 268,217</u> | <u>284,516</u> |

(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:

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2018 and 2017

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

- 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.

Spending Policy

Friends of HCL has a policy of appropriating endowment earnings for distribution each year. In establishing this policy, Friends of HCL considered the long-term expected return on its endowment. The annual distribution will be computed at 70% of the average total return of the preceding twelve quarters of the endowment funds. Approved distributions that are not used in a calendar year will accumulate and be available for distribution in subsequent years.

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, 2018 or 2017, in the donor-restricted endowment funds.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2018 and 2017

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

Endowment net asset composition for the years ended December 31, 2018 and 2017 are as follows:

| | 2018 | | |
|---|------------------------------|---------------------------|------------------|
| | Without Donor Restriction | With Donor Restriction | Total |
| Donor-Restricted Endowment Funds: | | | |
| Original gift amounts to be held in perpetuity | \$ - | 554,304 | 554,304 |
| Accumulated investment income | - | 27,960 | 27,960 |
| Board-Designated Endowment Funds | <u>607,812</u> | <u>-</u> | <u>607,812</u> |
| Total Funds | <u>\$ 607,812</u> | <u>582,264</u> | <u>1,190,076</u> |
| | | | |
| | 2017 | | |
| | Without Donor Restriction | With Donor Restriction | Total |
| Donor-Restricted Endowment Funds: | | | |
| Original gift amounts to be held in perpetuity | \$ - | 553,704 | 553,704 |
| Accumulated investment income | - | 93,678 | 93,678 |
| Board-Designated Endowment Funds | <u>676,395</u> | <u>-</u> | <u>676,395</u> |
| Total Funds | <u>\$ 676,395</u> | <u>647,382</u> | <u>1,323,777</u> |

The following is a summary of endowment funds subject to the UPMIFA for the years ended December 31, 2018 and 2017:

| | 2018 | | |
|---|------------------------------|---------------------------|------------------|
| | Without Donor Restriction | With Donor Restriction | Total |
| Endowment Net Assets, January 1, 2018 | \$ 676,395 | 647,382 | 1,323,777 |
| Investment Loss, Net | (46,525) | (44,594) | (91,119) |
| Contributions | - | 600 | 600 |
| Appropriations of Endowment Assets for Expenditure | (22,058) | (21,124) | (43,182) |
| Endowment Net Assets, December 31, 2018 | <u>\$ 607,812</u> | <u>582,264</u> | <u>1,190,076</u> |

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2018 and 2017

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

| | 2017 | | |
|---|------------------------------|---------------------------|------------------|
| | Without Donor Restriction | With Donor Restriction | Total |
| Endowment Net Assets, January 1, 2017 | \$ 600,189 | 572,545 | 1,172,734 |
| Investment Income, Net | 91,141 | 86,928 | 178,069 |
| Contributions | - | 2,105 | 2,105 |
| Appropriations of Endowment Assets for Expenditure | (14,935) | (14,196) | (29,131) |
| Endowment Net Assets, December 31, 2017 | \$ <u>676,395</u> | <u>647,382</u> | <u>1,323,777</u> |

(9) **DONATED SERVICES AND MATERIALS**

The office space and storage areas of Friends of HCL are provided by the Hennepin County Library at no charge. These contributions are classified as in-kind contributions in the accompanying statements of activities and as a corresponding expense on the accompanying statements of functional expenses. In addition, Friends of HCL receives donated catering and logistics services which meets the criteria for recognizing as a donated service. Donated services and materials were as follow for 2018 and 2017:

| | 2018 | 2017 |
|-----------------------|------------------|---------------|
| Occupancy and Storage | \$ 64,365 | 64,365 |
| Logistics | - | 2,999 |
| Catering | <u>15,848</u> | <u>7,951</u> |
| Total | \$ <u>80,213</u> | <u>75,315</u> |

(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 \$14,085 and \$12,715 during the years ended December 31, 2018 and 2017, respectively.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

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(11) **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 \$1,143,147 and \$1,275,418 during the years ended December 31, 2018 and 2017, respectively.

(12) **FRIENDS COORDINATION**

The Friends of HCL coordinate 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 \$243,299 and \$141,172 for the years ended December 31, 2018 and 2017, respectively, and are included in net assets with donor restrictions.

(13) **FUTURE FUNDING**

The Board of Directors of Friends of HCL intends to provide \$1,270,000 in support of the Hennepin County Library for 2019 to be used for the Library's priorities of Youth Focused Initiatives, Collection, Community-Embedded Service, and Innovation.