

LIBRARY FOUNDATION OF HENNEPIN COUNTY
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2009 AND 2008

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
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YEARS ENDED DECEMBER 31, 2009 AND 2008**

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LarsonAllen[®] LLP

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Library Foundation of Hennepin County
Minneapolis, Minnesota

We have audited the accompanying balance sheets of the Library Foundation of Hennepin County ("the Foundation") as of December 31, 2009 and 2008, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Library Foundation of Hennepin County as of December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

LarsonAllen LLP
LarsonAllen LLP

Minneapolis, Minnesota
March 30, 2010



**LIBRARY FOUNDATION OF HENNEPIN COUNTY
BALANCE SHEETS
DECEMBER 31, 2009 AND 2008**

	2009	2008
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 514,440	\$ 340,840
Accounts Receivable	-	12,985
Pledges Receivable, Net	95,908	171,672
Inventory	54,988	60,298
Prepaid Expenses	18,921	50,591
Total Current Assets	684,257	636,386
NON-CURRENT ASSETS		
Investments	1,657,707	1,842,327
Long-Term Pledges Receivable, Net	45,435	-
Charitable Remainder Annuity Trust	41,500	38,075
Furniture and Equipment, Net	2,930	19,501
Total Non-Current Assets	1,747,572	1,899,903
ASSETS HELD FOR OTHERS		
Cash and Cash Equivalents	48,389	1,239,223
Campaign Pledges, Net	50,000	99,930
Total Assets Held for Others	98,389	1,339,153
Total Assets	\$ 2,530,218	\$ 3,875,442
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 8,130	\$ 8,280
Accrued Expenses	8,413	7,662
Refundable Advance	-	16,155
Deferred Program Fees	81,197	67,971
Total Current Liabilities	97,740	100,068
COMMITMENT TO OTHERS		
Total Liabilities	97,593	1,459,736
Total Liabilities	195,333	1,559,804
NET ASSETS		
Unrestricted:		
Designated	440,293	465,293
Undesignated	1,117,609	897,007
Total Unrestricted	1,557,902	1,362,300
Temporarily Restricted	248,133	437,607
Permanently Restricted - Book Endowment	528,850	515,731
Total Net Assets	2,334,885	2,315,638
Total Liabilities and Net Assets	\$ 2,530,218	\$ 3,875,442

See accompanying Notes to Financial Statements.

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
Corporate, Foundation and Government Grants	\$ 325,403	\$ 126,920	\$ -	\$ 452,323
Contributions, In-Kind	268,927	-	-	268,927
Book Shop Sales	130,629	-	-	130,629
Change in Annuity Trust Value	-	3,425	-	3,425
Memberships, Individual Gifts and Memorials	873,632	-	13,119	886,751
Program Revenue	165,475	-	-	165,475
Investment Income	19,551	22,208	-	41,759
Total Support and Revenue	<u>1,783,617</u>	<u>152,553</u>	<u>13,119</u>	<u>1,949,289</u>
Net Assets Released from Restrictions	<u>342,027</u>	<u>(342,027)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	2,125,644	(189,474)	13,119	1,949,289
EXPENSES				
Program Services	1,573,557	-	-	1,573,557
General and Administrative	147,882	-	-	147,882
Fund Raising	208,603	-	-	208,603
Total Expenses	<u>1,930,042</u>	<u>-</u>	<u>-</u>	<u>1,930,042</u>
CHANGES IN NET ASSETS - OPERATING	195,602	(189,474)	13,119	19,247
NONOPERATING ACTIVITIES				
Adoption of FSP 117-1 Endowments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	195,602	(189,474)	13,119	19,247
Net Assets - Beginning of the Year	<u>1,362,300</u>	<u>437,607</u>	<u>515,731</u>	<u>2,315,638</u>
NET ASSETS - END OF YEAR	<u>\$ 1,557,902</u>	<u>\$ 248,133</u>	<u>\$ 528,850</u>	<u>\$ 2,334,885</u>

See accompanying Notes to Financial Statements.

2008

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 628,371	\$ 300,655	\$ 24,815	\$ 953,841
267,839	-	-	267,839
130,947	-	-	130,947
-	(904)	-	(904)
1,072,828	-	-	1,072,828
149,176	-	-	149,176
26,892	13,427	-	40,319
<u>2,276,053</u>	<u>313,178</u>	<u>24,815</u>	<u>2,614,046</u>
<u>286,531</u>	<u>(286,531)</u>	<u>-</u>	<u>-</u>
2,562,584	26,647	24,815	2,614,046
1,519,076	-	-	1,519,076
216,337	-	-	216,337
<u>161,950</u>	<u>-</u>	<u>-</u>	<u>161,950</u>
<u>1,897,363</u>	<u>-</u>	<u>-</u>	<u>1,897,363</u>
665,221	26,647	24,815	716,683
<u>-</u>	<u>13,201</u>	<u>(13,201)</u>	<u>-</u>
665,221	39,848	11,614	716,683
<u>697,079</u>	<u>397,759</u>	<u>504,117</u>	<u>1,598,955</u>
<u>\$ 1,362,300</u>	<u>\$ 437,607</u>	<u>\$ 515,731</u>	<u>\$ 2,315,638</u>

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2009**

	Programs				Total Program Services
	Library Support and Grants	Programs and Public Awareness	Pen Pals Author Series	Bookshop	
Salaries	\$ 29,478	\$ 92,604	\$ 41,414	\$ 43,345	\$ 206,841
Payroll Taxes	2,099	6,898	3,056	3,231	15,284
Employee Benefits	3,472	10,839	4,854	5,072	24,237
Total Personnel Costs	<u>35,049</u>	<u>110,341</u>	<u>49,324</u>	<u>51,648</u>	<u>246,362</u>
Accounting/Audit	-	-	-	-	-
Insurance	-	-	-	-	-
Processing Fees	1,972	-	10,652	2,504	15,128
Occupancy	-	39,000	-	39,000	78,000
Marketing and Education	-	5,437	25,257	-	30,694
Office Supplies	-	5,022	324	-	5,346
Dues and Subscriptions	209	104	-	-	313
Consultants	20,008	835	5,235	2,551	28,629
Cost of Goods Sold	-	-	3,187	131,190	134,377
Meetings and Conferences	-	-	-	-	-
Travel	-	1,584	5,423	-	7,007
Library Support	782,711	-	-	-	782,711
Grand Opening	-	-	-	-	-
Postage and Printing	-	41,492	30,635	300	72,427
Program Events	2,524	24,125	145,240	-	171,889
Staff Development	-	-	-	-	-
Bookstore Expense	-	-	-	674	674
Miscellaneous	-	-	-	-	-
Expenses Before Depreciation	<u>842,473</u>	<u>227,940</u>	<u>275,277</u>	<u>227,867</u>	<u>1,573,557</u>
Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenses	<u>\$ 842,473</u>	<u>\$ 227,940</u>	<u>\$ 275,277</u>	<u>\$ 227,867</u>	<u>\$ 1,573,557</u>
	44%	12%	14%	12%	82%

See accompanying Notes to Financial Statements.

Support			
General and Administrative	Fundraising	Total Support Services	Total All Services
\$ 62,766	\$ 115,919	\$ 178,685	\$ 385,526
4,484	8,649	13,133	28,417
10,757	13,619	24,376	48,613
78,007	138,187	216,194	462,556
			-
27,774	-	27,774	27,774
3,313	-	3,313	3,313
2,263	1,910	4,173	19,301
13,000	13,000	26,000	104,000
-	2,658	2,658	33,352
6,529	3,932	10,461	15,807
508	1,709	2,217	2,530
3,500	-	3,500	32,129
-	-	-	134,377
5,935	1,593	7,528	7,528
897	302	1,199	8,206
-	-	-	782,711
-	-	-	-
3,764	32,777	36,541	108,968
-	12,535	12,535	184,424
-	-	-	-
-	-	-	674
-	-	-	-
145,490	208,603	354,093	1,927,650
2,392	-	2,392	2,392
<u>\$ 147,882</u>	<u>\$ 208,603</u>	<u>\$ 356,485</u>	<u>\$ 1,930,042</u>
8%	11%	18%	100%

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2008**

	Programs				Total Program Services
	Library Support and Grants	Programs and Public Awareness	Pen Pals Author Series	Bookshop	
Salaries	\$ 5,810	\$ 219,646	\$ 54,676	\$ 43,937	\$ 324,069
Payroll Taxes	444	16,803	4,183	3,361	24,791
Employee Benefits	1,774	15,184	-	3,670	20,628
Total Personnel Costs	<u>8,028</u>	<u>251,633</u>	<u>58,859</u>	<u>50,968</u>	<u>369,488</u>
Accounting/Audit	-	-	-	-	-
Insurance	-	-	-	-	-
Processing Fees	-	-	-	1,056	1,056
Occupancy	-	46,282	5,540	39,635	91,457
Marketing and Education	-	57,904	9,777	109	67,790
Office Supplies	452	448	138	1,290	2,328
Dues and Subscriptions	19	6,667	-	-	6,686
Consultants	79,401	-	216	-	79,617
Cost of Goods Sold	-	-	-	153,340	153,340
Meetings and Conferences	-	-	-	-	-
Travel	-	-	5,039	-	5,039
Library Support	563,668	-	-	-	563,668
Grand Opening	-	-	-	-	-
Postage and Printing	-	13,414	2,214	551	16,179
Program Events	-	44,472	67,806	-	112,278
Staff Development	-	-	-	-	-
Bookstore Expense	-	-	-	570	570
Miscellaneous	1,847	20,718	27,015	-	49,580
Expenses Before Depreciation	<u>653,415</u>	<u>441,538</u>	<u>176,604</u>	<u>247,519</u>	<u>1,519,076</u>
Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenses	<u>\$ 653,415</u>	<u>\$ 441,538</u>	<u>\$ 176,604</u>	<u>\$ 247,519</u>	<u>\$ 1,519,076</u>
	34%	23%	9%	13%	80%

Support			
General and Administrative	Fundraising	Total Support Services	Total All Services
\$ 91,746	\$ 95,083	\$ 186,829	\$ 510,898
7,019	7,274	14,293	39,084
4,952	9,908	14,860	35,488
<u>103,717</u>	<u>112,265</u>	<u>215,982</u>	<u>585,470</u>
22,953	-	22,953	22,953
1,864	-	1,864	1,864
873	482	1,355	2,411
12,730	12,730	25,460	116,917
2,606	18,514	21,120	88,910
4,549	4,383	8,932	11,260
534	1,521	2,055	8,741
30,649	241	30,890	110,507
-	-	-	153,340
2,764	34,050	36,814	36,814
442	188	630	5,669
-	-	-	563,668
-	(36,116)	(36,116)	(36,116)
1,924	6,293	8,217	24,396
6,441	988	7,429	119,707
-	1,329	1,329	1,329
-	-	-	570
<u>19,991</u>	<u>5,082</u>	<u>25,073</u>	<u>74,653</u>
212,037	161,950	373,987	1,893,063
<u>4,300</u>	<u>-</u>	<u>4,300</u>	<u>4,300</u>
<u>\$ 216,337</u>	<u>\$ 161,950</u>	<u>\$ 378,287</u>	<u>\$ 1,897,363</u>
11%	9%	20%	100%

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 19,247	\$ 716,683
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	2,392	4,300
Realized (Gain) Loss on Securities	(24,729)	-
Unrealized Loss (Gain) on Securities	11,049	(1,803)
Loss on Disposal of Equipment	14,179	116
Decrease in Pledges Receivable	30,329	28,766
(Increase) Decrease in Charitable Remainder Annuity Trust	(3,425)	904
Decrease in Commitment to Others	(1,362,143)	(8,448)
Permanently Restricted Contributions Received	(13,119)	(24,815)
Decrease in Campaign Pledges	49,930	572,883
(Increase) Decrease in Current Assets:		
Accounts Receivable	12,985	(1,000)
Prepaid Assets	31,670	(38,517)
Inventories	5,310	5,272
Increase (Decrease) in Current Liabilities:		
Accounts Payable	(150)	(277,697)
Accrued Expenses	751	(17,525)
Deferred Revenue	13,226	31,874
Refundable Advances	(16,155)	-
Net Cash Provided (Used) by Operating Activities	<u>(1,228,653)</u>	<u>990,993</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(1,710,574)	(1,128,327)
Proceeds from Sale of Investments	<u>1,908,874</u>	<u>470,057</u>
Net Cash Provided (Used) by Investing Activities	198,300	(658,270)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Permanently Restricted Contributions Received	<u>13,119</u>	<u>24,815</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,017,234)	357,538
Cash and Cash Equivalents - Beginning	<u>1,580,063</u>	<u>1,222,525</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 562,829</u></u>	<u><u>\$ 1,580,063</u></u>
SUPPLEMENTAL DISCLOSURES		
In-Kind Contributions	<u><u>\$ 268,927</u></u>	<u><u>\$ 267,839</u></u>

See accompanying Notes to Financial Statements.

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The purpose for the Foundation 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, the Foundation initiates projects and programs, and provides selective financial assistance where library needs cannot be met through normal revenue sources.

The Friends of the Minneapolis Public Library and the Library Foundation of Hennepin County are not-for-profit organizations that merged together effective November 30, 2008 under the pooling of interests method of consolidation. Under the pooling of interest method, the surviving entity financial statements for 2008 include the activities of both former entities as if they had been together from inception. The surviving entity of this merger was the Library Foundation of Hennepin County ("the Foundation"). These financial statements include the financial operations of both former entities based on the 2008 calendar year.

Financial Statements

Net assets and revenues, gains and losses are classified based on donor imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted – Resources over which the board of directors has discretionary control. Designated amounts represent those resources which the Board has set aside for a particular purpose.

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Foundation or passage of time.

Permanently Restricted – Those resources subject to donor imposed restrictions that they be maintained permanently by the Foundation.

The Foundation has elected to present temporarily restricted contributions, which are fulfilled in the same time period, within the unrestricted net asset activity.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Foundation considers all highly liquid debt instruments with an initial maturity of less than three months to be cash equivalents. The balances are insured by the Federal Deposit Insurance Corporation up to certain limits. At times, cash in bank may exceed FDIC insurable limits.

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivables are stated at net realizable value. Accounts are due within 30 days of invoice date. The Foundation believes that all accounts are collectible and no allowance has been recorded as of December 31, 2009 and 2008. The allowance is based on management judgment considering historical information and the Foundation's policy of writing off accounts when management deems them not collectible.

Inventory

Inventories, consisting primarily of books, calendars, maps and gift shop items are valued at lower of cost (average cost method) or market.

Donated books are valued at their estimated fair market value when received.

Investments

Investments are initially recorded at cost, net of brokerage and transaction fees if purchased, and at fair value at the date of donation, if received as a contribution. Thereafter, investments are reported at fair market value.

Fair values of investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities. For securities without readily determinable values, the Foundation relies on management estimates of value.

The net realized and unrealized gains or losses on investments and interest and dividend income are reflected in the statement of activities in unrestricted revenue, unless donor stipulation temporarily or permanently restricts investment income.

Equipment and Depreciation

Furniture, fixtures and equipment with a value greater than \$500 are recorded at cost and are being depreciated over the estimated useful lives of the assets using straight-line and accelerated methods of depreciation.

Assets Held for Others

The Foundation recorded capital campaign contributions for the Minneapolis Central Library as an asset and a liability when received, either in the form of cash or as a pledge since the Foundation does not have variance power over the contributions and is acting as a fiscal agent for the duration of the capital campaign.

Board Designation of Unrestricted Net Assets

The Foundation's Board of Directors may, from time to time, by Board action, designate certain unrestricted net assets be used for specific programs or purposes.

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Program Fees

Deferred program fees represents Pen Pals season subscriptions received in advance and recognized as revenue upon the completion of each program.

Uniform Prudent Management of Institutional Funds Act

During 2008, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) became effective in the State of Minnesota. In August 2008, the FASB guidance on the classification of endowment fund net assets for states that have enacted versions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and enhances disclosures for endowment funds. Under UPMIFA all unappropriated endowment fund assets are considered restricted. The financial statements impact for implementation of these standards is detailed in Note 8.

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. The Foundation accounts for its investments at fair value. In accordance with the related standards, the Foundation has categorized its investments, based on the priority of the inputs to 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 the Foundation 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.

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.

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.

Advertising Costs

Advertising costs are expensed when incurred except for direct response advertising which is included in prepaid expense and expensed in the period the related program occurs. Total advertising costs were \$33,352 and \$13,390 for the years ended December 31, 2009 and 2008, respectively. Direct response advertising included in prepaid expense totaled \$-0- and \$11,744 at December 31, 2009 and 2008, respectively.

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The Foundation follows the policy of charging identifiable expenses directly to program services. Expenses of a general nature are allocated to program and support services based on the activities of the Foundation's personnel, usage of the facility and management's evaluation and judgment.

Tax Exempt Status

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

Effective January 1, 2009, the Foundation has adopted guidance regarding the recognition of uncertain tax positions. This guidance prescribes a recognition threshold for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. The implementation of this guidance had no impact on the Foundation's financial statements. The Foundation's tax returns are subject to review and examination by federal and state authorities. The tax returns for the years 2006 through 2009 are open to examination by federal and state authorities.

Estimates and Assumptions

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through March 30, 2010, the date the financial statements were available to be issued.

Reclassifications

Certain amounts for the year ended December 31, 2008, have been reclassified to conform with the presentation of the December 31, 2009 amounts. The reclassifications have no effect on changes in net assets or net assets for the year ended December 31, 2008.

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 2 PLEDGES RECEIVABLE

Pledges receivable as of December 31 consist of the following:

	<u>2009</u>	<u>2008</u>
Unconditional Pledges Receivable	\$ 144,069	\$ 306,672
Allowance for Uncollectible Pledges	-	(135,000)
Unamortized Discount at 6%	(2,726)	-
Total	<u>\$ 141,343</u>	<u>\$ 171,672</u>
Amounts Due in:		
Less Than One Year	\$ 95,908	\$ 171,672
One to Five Years	45,435	-
Total	<u>\$ 141,343</u>	<u>\$ 171,672</u>

NOTE 3 INVESTMENTS

Investments are presented in the financial statement in the aggregate at fair market value. Investments are comprised of the following at December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Cash and Money Market	\$ 1,422,041	\$ 384,072
Fixed Income CDs	227,190	1,458,255
Equities	8,476	-
Charitable Remainder Annuity Trust	41,500	38,075
Total	<u>\$ 1,699,207</u>	<u>\$ 1,880,402</u>

The following table presents the Foundation's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2009 and 2008:

	<u>2009</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market	\$ 1,422,041	\$ -	\$ -	\$ 1,422,041
Certificates of Deposit	-	227,190	-	227,190
Equities	8,476	-	-	8,476
Charitable Remainder Annuity Trust	-	-	41,500	41,500
Total	<u>\$ 1,430,517</u>	<u>\$ 227,190</u>	<u>\$ 41,500</u>	<u>\$ 1,699,207</u>
	<u>2008</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market	\$ 384,072	\$ -	\$ -	\$ 384,072
Certificates of Deposit	-	1,458,255	-	1,458,255
Equities	-	-	-	-
Charitable Remainder Annuity Trust	-	-	38,075	38,075
Total	<u>\$ 384,072</u>	<u>\$ 1,458,255</u>	<u>\$ 38,075</u>	<u>\$ 1,880,402</u>

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 3 INVESTMENTS (CONTINUED)

Investment income is comprised of the following at December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Interest, Dividends	\$ 28,079	\$ 38,516
Realized Gain/(Loss)	24,729	-
Unrealized Gain/(Loss)	(11,049)	1,803
Total	<u>\$ 41,759</u>	<u>\$ 40,319</u>

The following table presents changes in assets and liabilities measured at fair value using Level 3 inputs on a recurring basis for the years ended December 31, 2009 and 2008:

Balance at January 1, 2009	\$ 38,075
Total Gains (Realized or Unrealized) for the Year, Net	3,425
Purchases, Sales, Issuances, and Settlements, Net	-
Transfers in and/or out of Level 3	-
Balance at December 31, 2009	<u>\$ 41,500</u>
Balance at January 1, 2008	\$ 38,979
Total losses (realized or unrealized) for the year, net	(904)
Purchases, sales, issuances, and settlements, net	-
Transfers in and/or out of Level 3	-
Balance at December 31, 2008	<u>\$ 38,075</u>

NOTE 4 CHARITABLE REMAINDER ANNUITY TRUST

The Foundation is a 50% beneficiary of a charitable remainder annuity trust. Each year the trustee pays an established annuity amount during the recipient's life. The annuity amount is paid from income and to the extent that income is not sufficient, from principal. Any income of the trust in excess of the annuity amount is added to principal. Upon the death of the recipient, the trustee will distribute the trust assets. The present value of distribution is estimated to be \$41,500 as of December 31, 2009 and \$38,075 as of December 31, 2008 and is classified as a temporarily restricted net asset. On an annual basis the trust is revalued and the estimated future payments to the recipient are based on actuarial assumptions. The present value of the estimated future payments was calculated using a discount rate of 6% and applicable life expectancy table as of December 31, 2009.

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 5 FURNITURE AND EQUIPMENT

Capitalized assets consist of the following at December 31, 2009 and 2008:

	2009	2008
Furniture and Equipment	\$ 14,355	\$ 33,692
Accumulated Depreciation	(11,425)	(14,191)
Total	\$ 2,930	\$ 19,501

During the year ended December 31, 2009, the Foundation donated furniture to the Library. The net book value at the time of the donation was shown as a loss on disposal for cash flow purposes in the amount of \$14,179 and included in Library Support on the statement of activities.

NOTE 6 ASSETS HELD FOR OTHERS

During the year ended December 31, 2003, the Friends of the Minneapolis Public Library entered into a Campaign Management Contract with the Minneapolis Public Library Board of the City of Minneapolis where the Friends assisted the Library Board with the new central library capital campaign. This agreement was in effect until May 31, 2006. Effective January 1, 2008, the Minneapolis Public Library System merged with the Hennepin County Library System. The Friends commitment will now be payable to the Hennepin County Library.

All proceeds and pledges raised for the campaign are classified on the balance sheet as assets held for others and the related commitment to others. All remaining receivables as of December 31, 2009 are current. An allowance for uncollectible pledges has been estimated based on management specifically identifying doubtful pledges.

Campaign pledge receivables total \$50,000 and \$99,930 at December 31, 2009 and 2008, respectively.

Campaign funds collected to date, that have not been remitted to the Hennepin County Library total \$48,389 and \$1,239,223 at December 31, 2009 and 2008, respectively. The total funds collected and pledges receivable related to this contract were \$98,389 and \$1,339,153 at December 31, 2009 and 2008, respectively, and have been reflected as assets held for others in accordance with the contract.

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 7 NET ASSETS

Temporarily Restricted

Temporarily restricted net assets at December 31, 2009 and 2008 consist of the following amounts:

	<u>2009</u>	<u>2008</u>
Charitable Remainder Trust	\$ 41,500	\$ 38,075
People's University	-	10,137
Teen Programs	25,000	40,000
Talk of the Stacks	-	10,335
Strategic Planning	-	11,120
Collections	-	5,344
Library Links	35,000	57,500
Franklin Library	2,000	5,500
Franklin Learning Center	-	13,866
Minneapolis Libraries	-	30,000
Summer Reading	-	26,518
Homework Helper	-	43,290
Raising Readers	-	-
Target Community Grants	-	10,600
Comcast BAM	-	-
Community Libraries	-	12,185
Hosmer Music Series	250	4,075
Anime Programs	-	4,000
Early Literacy	-	4,000
North Regional	2,002	38,469
Cole Fund	17,592	19,592
Hennepin County Giving Campaign	-	14,441
Various Small Programs	7,342	11,932
Unappropriated Endowment Earnings	22,474	26,628
Central Library	5,795	-
Kesti Book Fund	8,883	-
ITP Retirement Program	55,295	-
New Immigrants	25,000	-
Total Temporarily Restricted Net Assets	<u>\$ 248,133</u>	<u>\$ 437,607</u>

Permanently Restricted

Permanently restricted net assets at December 31, 2009 and 2008 consist of the following amounts:

	<u>2009</u>	<u>2008</u>
Book Endowment	<u>\$ 528,850</u>	<u>\$ 515,731</u>

The purpose of the fund is to augment the library's annual book budget. Income from the invested funds is contributed to the library each year.

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 7 NET ASSETS (CONTINUED)

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors during the years ended December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
People's University	\$ 10,137	\$ 12,285
Teen Technology	40,000	-
Talk of the Stacks	10,335	11,139
Strategic Planning	11,120	-
Collections	5,343	23,252
Library Links	22,500	17,500
Franklin Library	3,500	-
Franklin Learning Center	13,866	-
Minneapolis Libraries	30,000	-
Summer Reading	26,518	13,482
Homework Helper	43,290	-
Target Community Grants	10,600	-
Community Libraries	12,185	-
Hosmer Music Series	4,075	-
Anime Programs	4,000	-
Early Literacy	4,000	-
North Regional	36,467	533
Cole Fund	3,000	-
Hennepin County Giving Campaign	14,441	15,961
Film Series	-	7,516
Raising Readers	-	27,276
Comcast BAM	-	20,000
Pen Pals 2008	-	87,903
Strategic Plan and Merger	-	46,780
Various Small Programs	10,288	2,904
Unappropriated Endowment Earnings	26,362	-
Total Temporarily Restricted Net Assets	<u>\$ 342,027</u>	<u>\$ 286,531</u>

NOTE 8 BOOK ENDOWMENT

The Foundation's endowment fund was established for the purpose of augmenting the library's annual book budget. Income from the invested funds is supplied to the library each year. Its endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as an endowment. As required by generally accepted accounting principles, 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.

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 8 BOOK ENDOWMENT (CONTINUED)

Interpretation of Relevant Law

The Board of Directors of Hennepin County Library Foundation 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, the Foundation classifies as permanently restricted net assets the original value of the gifts to the permanent endowment and the value of subsequent gifts to the permanent endowment. The remaining portion of donor-restricted endowment funds, if any that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

Endowment net asset composition, by type, and changes in endowment net assets for the years ended December 31, 2009 and 2008 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2009 Total</u>
Donor-Restricted Endowment Funds	\$ -	\$ 22,474	\$ 528,850	\$ 551,324
Board-Designated Endowment Funds	440,293	-	-	440,293
Total Funds	<u>\$ 440,293</u>	<u>\$ 22,474</u>	<u>\$ 528,850</u>	<u>\$ 991,617</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2008 Total</u>
Donor-Restricted Endowment Funds	\$ -	\$ 26,628	\$ 515,731	\$ 542,359
Board-Designated Endowment Funds	465,293	-	-	465,293
Total Funds	<u>\$ 465,293</u>	<u>\$ 26,628</u>	<u>\$ 515,731</u>	<u>\$ 1,007,652</u>

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 8 BOOK ENDOWMENT (CONTINUED)

The following is a summary of endowment funds subject to the Uniform Prudent Management of Institutional Funds Act of (UPMIFA) for the years ended December 31, 2009 and 2008:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2009 Total</u>
Endowment Net Assets, January 1, 2009	\$ 465,293	\$ 26,628	\$ 515,731	\$ 1,007,652
Investment Return:				
Investment Income/(Loss)	-	7,778	-	7,778
Net Realized and Unrealized Gains	-	14,430	-	14,430
Total Investment Return	<u>-</u>	<u>22,208</u>	<u>-</u>	<u>22,208</u>
Contributions	-	-	13,119	13,119
Appropriations of Endowment Assets for Expenditure	<u>(25,000)</u>	<u>(26,362)</u>	<u>-</u>	<u>(51,362)</u>
Endowment Net Assets, December 31, 2009	<u>\$ 440,293</u>	<u>\$ 22,474</u>	<u>\$ 528,850</u>	<u>\$ 991,617</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2008 Total</u>
Endowment Net Assets, January 1, 2008	\$ -	\$ -	\$ 504,117	\$ 504,117
Adoption of FSP 117-1 Endowments	-	13,201	(13,201)	-
Investment Return:				
Investment Income	-	-	13,796	13,796
Net Realized and Unrealized Losses	-	-	(369)	(369)
Total Investment Return	<u>-</u>	<u>-</u>	<u>13,427</u>	<u>13,427</u>
Contributions	-	-	24,815	24,815
Appropriations of Endowment Assets for Expenditure	-	13,427	(13,427)	-
Other Changes:				
Transfers to Create Board- Designated Endowment Funds	<u>465,293</u>	<u>-</u>	<u>-</u>	<u>465,293</u>
Endowment Net Assets, December 31, 2008	<u>\$ 465,293</u>	<u>\$ 26,628</u>	<u>\$ 515,731</u>	<u>\$ 1,007,652</u>

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 8 BOOK ENDOWMENT (CONTINUED)

Fund with Deficiencies

From time to time, the fair value of assets associated with individual endowment fund may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2009 or 2008 in permanently restricted donor endowment funds.

Investment Objectives and Strategies

The Foundation 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, the Foundation follows an asset diversification plan, sets performance benchmarks for investments managers, and has established various asset quality and limitations thresholds. Actual returns in any given year may vary from this amount.

Spending Policy

The Foundation has a policy of appropriating endowment earnings for distribution each year. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Approved distributions that are not used for a calendar year will accumulate and be available for distribution in subsequent years. At no time will the distributions reduce the value of the endowment below donor contributions.

NOTE 9 DONATED SERVICES AND MATERIALS

A number of volunteers have made significant contributions of their time to the Foundation to help with programs and activities. The value of this contributed time is not reflected in the statements since such time valuation does not conform to recognition standards under generally accepted accounting principles.

In addition, books are donated to the Foundation for sale in the bookstore. The estimated fair market value of the donated books is classified as "Contributions, In-Kind" in the accompanying statements of activities. Books donated during the years ended December 31, 2009 and 2008 had an estimated fair market values of \$112,000 and \$138,243, respectively.

LIBRARY FOUNDATION OF HENNEPIN COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 9 DONATED SERVICES AND MATERIALS (CONTINUED)

The office space, Book Shop, and storage areas are provided by the Hennepin County Library at no charge. These contributions are estimated to have values of \$104,000 and \$117,000 for the years ended December 31, 2009 and 2008, respectively. These contributions are classified as "Contributions, In-Kind" in the accompanying statements of activities. A corresponding rent expense of \$104,000 and \$117,000 is reported on a functional basis within the statement of activities for the years ended December 31, 2009 and 2008, respectively.

In addition to books and office space, the Foundation also receives miscellaneous in-kind goods and services from time to time, such as advertising or catering. Such donations during the years ended December 31, 2009 and 2008 had an estimated fair market value of \$52,927 and \$12,596, respectively.

NOTE 10 403(B) EMPLOYEE RETIREMENT PLAN

The Foundation sponsors a 403(b) retirement savings plan for its employees. Employees who work 1,000 hours annually are eligible. The Foundation makes contributions into the plan equal to 2% of each employee's total annual compensation. Matching contributions to the plan were \$7,761 and \$5,836 during the years ended December 31, 2009 and 2008, respectively.

NOTE 11 RELATED PARTY

As noted in Notes 1, 6 and 11, the Foundation is affiliated with the Hennepin County Library in various economic relationships. In addition, the Foundation made library support payments totaling \$782,711 and \$563,668 during the years ended December 31, 2009 and 2008, respectively.

NOTE 12 RELEASE OF ASSETS HELD FOR OTHERS

As noted in Note 6, the Foundation is managing the proceeds and pledges of the Minneapolis Central Library capital campaign on behalf of the Hennepin County Library. For the years ended December 31, 2009 and 2008, disbursements of \$1,240,764 and \$0-, respectively, of campaign funds were made to the library.