

LIBRARY FOUNDATION OF HENNEPIN COUNTY
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
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YEARS ENDED DECEMBER 31, 2010 AND 2009**

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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, 2010 and 2009, 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, 2010 and 2009, 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
May 16, 2011

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
BALANCE SHEETS
DECEMBER 31, 2010 AND 2009**

	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 417,989	\$ 514,440
Pledges Receivable, Net	102,014	95,908
Inventory	51,825	54,988
Prepaid Expenses	20,582	18,921
Total Current Assets	592,410	684,257
NON-CURRENT ASSETS		
Investments	1,868,647	1,657,707
Long-Term Pledges Receivable, Net	22,000	45,435
Charitable Remainder Annuity Trust	47,399	41,500
Furniture and Equipment, Net	965	2,930
Total Non-Current Assets	1,939,011	1,747,572
ASSETS HELD FOR OTHERS		
Cash and Cash Equivalents	-	48,389
Campaign Pledges, Net	-	50,000
Total Assets Held for Others	-	98,389
Total Assets	\$ 2,531,421	\$ 2,530,218
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 8,616	\$ 8,130
Accrued Expenses	8,664	8,413
Deferred Program Fees	116,324	81,197
Total Current Liabilities	133,604	97,740
COMMITMENT TO OTHERS		
Total Liabilities	133,604	195,333
NET ASSETS		
Unrestricted:		
Designated	524,812	440,293
Undesignated	1,001,888	1,107,609
Total Unrestricted	1,526,700	1,547,902
Temporarily Restricted	329,147	258,133
Permanently Restricted - Book Endowment	541,970	528,850
Total Net Assets	2,397,817	2,334,885
Total Liabilities and Net Assets	\$ 2,531,421	\$ 2,530,218

See accompanying Notes to Financial Statements.

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
Corporate, Foundation and Government Grants	\$ 255,375	\$ 147,594	\$ -	\$ 402,969
Contributions, In-Kind	313,737	-	-	313,737
Book Shop Sales	128,137	-	-	128,137
Change in Annuity Trust Value	-	5,899	-	5,899
Memberships, Individual Gifts and Memorials	476,643	-	13,120	489,763
Program Revenue	213,794	-	-	213,794
Investment Income	54,860	86,571	-	141,431
Total Support and Revenue	<u>1,442,546</u>	<u>240,064</u>	<u>13,120</u>	<u>1,695,730</u>
Net Assets Released from Restrictions	<u>169,050</u>	<u>(169,050)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	1,611,596	71,014	13,120	1,695,730
EXPENSES				
Program Services	1,283,924	-	-	1,283,924
General and Administrative	134,332	-	-	134,332
Fund Raising	214,542	-	-	214,542
Total Expenses	<u>1,632,798</u>	<u>-</u>	<u>-</u>	<u>1,632,798</u>
CHANGE IN NET ASSETS	(21,202)	71,014	13,120	62,932
Net Assets - Beginning of the Year	<u>1,547,902</u>	<u>258,133</u>	<u>528,850</u>	<u>2,334,885</u>
NET ASSETS - END OF YEAR	<u>\$ 1,526,700</u>	<u>\$ 329,147</u>	<u>\$ 541,970</u>	<u>\$ 2,397,817</u>

See accompanying Notes to Financial Statements.

2009

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 325,403	\$ 126,920	\$ -	\$ 452,323
268,927	-	-	268,927
130,629	-	-	130,629
-	3,425	-	3,425
873,632	-	13,119	886,751
165,475	-	-	165,475
9,551	32,208	-	41,759
<u>1,773,617</u>	<u>162,553</u>	<u>13,119</u>	<u>1,949,289</u>
<u>342,027</u>	<u>(342,027)</u>	<u>-</u>	<u>-</u>
2,115,644	(179,474)	13,119	1,949,289
1,573,557	-	-	1,573,557
147,882	-	-	147,882
208,603	-	-	208,603
<u>1,930,042</u>	<u>-</u>	<u>-</u>	<u>1,930,042</u>
185,602	(179,474)	13,119	19,247
<u>1,362,300</u>	<u>437,607</u>	<u>515,731</u>	<u>2,315,638</u>
<u>\$ 1,547,902</u>	<u>\$ 258,133</u>	<u>\$ 528,850</u>	<u>\$ 2,334,885</u>

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2010**

	Programs				Total Program Services
	Library Support and Grants	Programs and Public Awareness	Pen Pals Author Series	Bookshop	
Salaries	\$ 52,135	\$ 92,604	\$ 44,234	\$ 43,072	\$ 232,045
Payroll Taxes	3,770	6,690	3,197	3,113	16,770
Employee Benefits	6,050	10,721	5,121	4,987	26,879
Total Personnel Costs	<u>61,955</u>	<u>110,015</u>	<u>52,552</u>	<u>51,172</u>	<u>275,694</u>
Accounting/Audit	-	-	-	-	-
Insurance	-	-	-	-	-
Processing Fees	1,246	34	24,189	1,578	27,047
Occupancy	-	39,000	-	39,000	78,000
Marketing and Education	200	12,392	88,950	-	101,542
Office Supplies	-	4,845	518	-	5,363
Dues and Subscriptions	500	1,259	465	-	2,224
Consultants	-	-	2,260	3,842	6,102
Cost of Goods Sold	-	714	8,545	124,992	134,251
Meetings and Conferences	-	1,180	410	129	1,719
Travel	-	4,092	4,662	-	8,754
Library Support	410,594	-	-	-	410,594
Postage and Printing	-	43,331	53,044	165	96,540
Program Events	1,353	21,708	111,926	137	135,124
Bookstore Expense	-	-	-	970	970
Miscellaneous	-	-	-	-	-
Expenses Before Depreciation	<u>475,848</u>	<u>238,570</u>	<u>347,521</u>	<u>221,985</u>	<u>1,283,924</u>
Depreciation	-	-	-	-	-
Total Expenses	<u><u>\$ 475,848</u></u>	<u><u>\$ 238,570</u></u>	<u><u>\$ 347,521</u></u>	<u><u>\$ 221,985</u></u>	<u><u>\$ 1,283,924</u></u>

See accompanying Notes to Financial Statements.

Support			
General and Administrative	Fundraising	Total Support Services	Total All Services
\$ 59,807	\$ 107,489	\$ 167,296	\$ 399,341
3,798	7,771	11,569	28,339
9,007	12,452	21,459	48,338
<u>72,612</u>	<u>127,712</u>	<u>200,324</u>	<u>476,018</u>
19,596	-	19,596	19,596
2,312	-	2,312	2,312
3,207	11,155	14,362	41,409
13,000	13,000	26,000	104,000
-	4,302	4,302	105,844
1,012	3,811	4,823	10,186
930	891	1,821	4,045
12,250	-	12,250	18,352
-	-	-	134,251
5,805	788	6,593	8,312
1,808	455	2,263	11,017
-	-	-	410,594
532	33,410	33,942	130,482
331	19,018	19,349	154,473
-	-	-	970
139	-	139	139
<u>133,534</u>	<u>214,542</u>	<u>348,076</u>	<u>1,632,000</u>
798	-	798	798
<u>\$ 134,332</u>	<u>\$ 214,542</u>	<u>\$ 348,874</u>	<u>\$ 1,632,798</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
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><u>\$ 842,473</u></u>	<u><u>\$ 227,940</u></u>	<u><u>\$ 275,277</u></u>	<u><u>\$ 227,867</u></u>	<u><u>\$ 1,573,557</u></u>

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
<u>78,007</u>	<u>138,187</u>	<u>216,194</u>	<u>462,556</u>
			-
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
-	-	-	-
<u>145,490</u>	<u>208,603</u>	<u>354,093</u>	<u>1,927,650</u>
<u>2,392</u>	<u>-</u>	<u>2,392</u>	<u>2,392</u>
<u><u>\$ 147,882</u></u>	<u><u>\$ 208,603</u></u>	<u><u>\$ 356,485</u></u>	<u><u>\$ 1,930,042</u></u>

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 62,932	\$ 19,247
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	798	2,392
Realized Gain on Securities	(10,481)	(24,729)
Unrealized (Gain) Loss on Securities	(121,728)	11,049
Loss on Disposal of Equipment	1,167	14,179
Decrease in Pledges Receivable	17,329	30,329
Increase in Charitable Remainder Annuity Trust	(5,899)	(3,425)
Decrease in Commitment to Others	(97,593)	(1,362,143)
Permanently Restricted Contributions Received	(13,120)	(13,119)
Decrease in Campaign Pledges	50,000	49,930
(Increase) Decrease in Current Assets:		
Accounts Receivable	-	12,985
Prepaid Assets	(1,661)	31,670
Inventories	3,163	5,310
Increase (Decrease) in Current Liabilities:		
Accounts Payable	486	(150)
Accrued Expenses	251	751
Deferred Revenue	35,127	13,226
Refundable Advances	-	(16,155)
Net Cash Used by Operating Activities	(79,229)	(1,228,653)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(158,470)	(1,710,574)
Proceeds from Sale of Investments	79,739	1,908,874
Net Cash Provided (Used) by Investing Activities	(78,731)	198,300
 CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Permanently Restricted Contributions Received	13,120	13,119
 NET DECREASE IN CASH AND CASH EQUIVALENTS	(144,840)	(1,017,234)
Cash and Cash Equivalents - Beginning	562,829	1,580,063
CASH AND CASH EQUIVALENTS - ENDING	\$ 417,989	\$ 562,829
 CASH AND CASH EQUIVALENTS SHOWN ON BALANCE SHEET		
Cash and Cash Equivalents included in Current Assets	\$ 417,989	\$ 514,440
Cash and Cash Equivalents included in Assets Held For Others	-	48,389
CASH AND CASH EQUIVALENTS - ENDING	\$ 417,989	\$ 562,829
 SUPPLEMENTAL DISCLOSURES		
In-Kind Contributions	\$ 313,737	\$ 268,927

See accompanying Notes to Financial Statements.

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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.

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 or cash equivalents. The balances are insured by the Federal Deposit Insurance Corporation up to certain limits.

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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, 2010 and 2009. 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. The balance in assets held for others as of December 31, 2010 was \$-0-.

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 to be used for specific programs or purposes.

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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

The organization follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Under UPMIFA all unappropriated endowment fund assets are considered restricted. The financial statement impact of UPMIFA is disclosed in Note 9.

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 \$105,845 and \$33,352 for the years ended December 31, 2010 and 2009, respectively.

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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.

The Foundation follows 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 Foundation's tax returns are subject to review and examination by federal and state authorities. The tax returns for the years 2007 through 2010 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 May 16, 2011, the date the financial statements were available to be issued.

Reclassifications

Certain amounts for the year ended December 31, 2009 have been reclassified to conform with the presentation of the December 31, 2010 amounts. The reclassifications have no effect on changes in net assets or net assets for the year ended December 31, 2009.

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 2 PLEDGES RECEIVABLE

Pledges receivable as of December 31 consist of the following:

	2010	2009
Unconditional Pledges Receivable	\$ 127,014	\$ 144,069
Unamortized Discount at 6%	(3,000)	(2,726)
Total	<u>\$ 124,014</u>	<u>\$ 141,343</u>
Amounts Due in:		
Less Than One Year	\$ 102,014	\$ 95,908
One to Five Years	22,000	45,435
Total	<u>\$ 124,014</u>	<u>\$ 141,343</u>

NOTE 3 INVESTMENTS

Investments, other than cash and money market accounts which are stated at cost, are presented in the financial statement in the aggregate at fair market value. Investments are comprised of the following at December 31, 2010 and 2009:

	2010	2009
Cash and Money Market	\$ 759,309	\$ 1,422,041
Mutual Funds - Income Funds	340,679	227,190
Mutual Funds - Equity Funds	768,659	8,476
Total	<u>\$ 1,868,647</u>	<u>\$ 1,657,707</u>

Investment income is comprised of the following at December 31, 2010 and 2009

	2010	2009
Interest, Dividends	\$ 9,222	\$ 28,079
Realized Gain	10,481	24,729
Unrealized Gain (Loss)	121,728	(11,049)
Total	<u>\$ 141,431</u>	<u>\$ 41,759</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 \$47,399 as of December 31, 2010 and \$41,500 as of December 31, 2009 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 approximately 7% and applicable life expectancy table as of December 31, 2010.

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 5 FAIR VALUE MEASUREMENT

The following tables present the Foundation's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2010 and 2009:

	2010			
	Level 1	Level 2	Level 3	Total
Mutual Funds - Income Funds	\$ 340,679	\$ -	\$ -	\$ 340,679
Mutual Funds - Equities	768,659	-	-	768,659
Charitable Remainder				
Annuity Trust	-	-	47,399	47,399
Total	\$ 1,109,338	\$ -	\$ 47,399	\$ 1,156,737
	2009			
	Level 1	Level 2	Level 3	Total
Certificates of Deposit	\$ -	\$ 227,190	\$ -	\$ 227,190
Equities	8,476	-	-	8,476
Charitable Remainder				
Annuity Trust	-	-	41,500	41,500
Total	\$ 8,476	\$ 227,190	\$ 41,500	\$ 277,166

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, 2010 and 2009:

Balance at January 1, 2010	\$ 41,500
Total Gains (Realized or Unrealized) for the Year, Net	5,899
Purchases, Sales, Issuances, and Settlements, Net	-
Transfers in and/or out of Level 3	-
Balance at December 31, 2010	\$ 47,399
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	\$ 41,500

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 6 FURNITURE AND EQUIPMENT

Capitalized assets consist of the following at December 31, 2010 and 2009:

	2010	2009
Furniture and Equipment	\$ 8,521	\$ 14,355
Accumulated Depreciation	(7,556)	(11,425)
Total	\$ 965	\$ 2,930

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 7 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 is now 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, 2010 and 2009 are current. An allowance for uncollectible pledges has been estimated based on management specifically identifying doubtful pledges.

Campaign pledge receivables total \$-0- and \$50,000 at December 31, 2010 and 2009, respectively.

Campaign funds collected to date, that have not been remitted to the Hennepin County Library total \$-0- and \$48,389 at December 31, 2010 and 2009, respectively. The total funds collected and pledges receivable related to this contract were \$-0- and \$98,389 at December 31, 2010 and 2009, 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, 2010 AND 2009**

NOTE 8 NET ASSETS

Temporarily Restricted

Temporarily restricted net assets at December 31, 2010 and 2009 consist of the following amounts:

	<u>2010</u>	<u>2009</u>
Charitable Remainder Trust	\$ 47,399	\$ 41,500
Teen Programs	20,000	25,000
Library Links	-	35,000
Franklin Library	-	2,000
Franklin Learning Center	950	-
Homework Helper	7,475	-
Hosmer Music Series	-	250
North Regional	-	2,002
Cole Fund	15,607	17,592
Various Small Programs	10,104	7,342
Unappropriated Endowment Earnings	116,501	32,474
Central Library	1,000	5,795
Kesti Book Fund	8,819	8,883
ITP Retirement Program	3,161	55,295
New Immigrants	-	25,000
East Lake Friends	2,953	-
Franklin Friends	2,504	-
Hosmer Friends	2,504	-
Linden Hills Friends	4,576	-
Minneapolis Central Friends	2,504	-
Nokomis Friends	2,504	-
North Regional Friends	2,504	-
Northeast Friends	3,615	-
Pierre Bottineau Friends	2,504	-
Roosevelt Friends	2,504	-
Southeast Friends	2,504	-
Summer Friends	4,875	-
Walker Friends	4,525	-
Washburn Friends	5,656	-
Webber Park Friends	4,210	-
Friends Coordination	47,689	-
Total Temporarily Restricted Net Assets	<u>\$ 329,147</u>	<u>\$ 258,133</u>

Permanently Restricted

Permanently restricted net assets at December 31, 2010 and 2009 consist of the following amounts:

	<u>2010</u>	<u>2009</u>
Book Endowment	<u>\$ 541,970</u>	<u>\$ 528,850</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, 2010 AND 2009**

NOTE 8 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, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
People's University	\$ -	\$ 10,137
Teen Technology	-	40,000
Talk of the Stacks	-	10,335
Strategic Planning	-	11,120
Central Library	5,795	-
Kesti Book Fund	1,000	-
ITP Retirement Program	52,133	-
New Immigrants	25,000	-
Teen Programs	25,000	-
Collections	-	5,343
Library Links	35,000	22,500
Franklin Library	2,000	3,500
Franklin Learning Center	-	13,866
Minneapolis Libraries	-	30,000
Summer Reading	-	26,518
Homework Helper	-	43,290
Target Community Grants	-	10,600
Community Libraries	-	12,185
North Regional Youth	2,002	-
Hosmer Music Series	250	4,075
Anime Programs	-	4,000
Early Literacy	-	4,000
North Regional	-	36,467
Cole Fund	3,000	3,000
Hennepin County Giving Campaign	-	14,441
Various Small Programs	5,326	10,288
Unappropriated Endowment Earnings	12,544	26,362
Total Temporarily Restricted Net Assets	<u>\$ 169,050</u>	<u>\$ 342,027</u>

NOTE 9 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 U.S. 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, 2010 AND 2009**

NOTE 9 BOOK ENDOWMENT (CONTINUED)

Interpretation of Relevant Law

The Board of Directors of Hennepin County Library Foundation has interpreted the 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, 2010 and 2009 are as follows:

	2010			2010 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-Restricted Endowment Funds	\$ -	\$ 116,501	\$ 541,970	\$ 658,471
Board-Designated Endowment Funds	524,812	-	-	524,812
Total Funds	<u>\$ 524,812</u>	<u>\$ 116,501</u>	<u>\$ 541,970</u>	<u>\$ 1,183,283</u>

	2009			2009 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-Restricted Endowment Funds	\$ -	\$ 32,474	\$ 528,850	\$ 561,324
Board-Designated Endowment Funds	465,293	-	-	465,293
Total Funds	<u>\$ 465,293</u>	<u>\$ 32,474</u>	<u>\$ 528,850</u>	<u>\$ 1,026,617</u>

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 9 BOOK ENDOWMENT (CONTINUED)

The following is a summary of endowment funds subject to the UPMIFA for the years ended December 31, 2010 and 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>
Endowment Net Assets, January 1, 2010	\$ 465,293	\$ 32,474	\$ 528,850	\$ 1,026,617
Investment Return:				
Investment Income	-	12,544	-	12,544
Net Realized and Unrealized Gains	<u>59,519</u>	<u>74,027</u>	-	<u>133,546</u>
Total Investment Return	59,519	86,571	-	146,090
Contributions	-	-	13,120	13,120
Appropriations of Endowment Assets for Expenditure	<u>-</u>	<u>(2,544)</u>	-	<u>(2,544)</u>
Endowment Net Assets, December 31, 2010	<u>\$ 524,812</u>	<u>\$ 116,501</u>	<u>\$ 541,970</u>	<u>\$ 1,183,283</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2009 Total</u>
Endowment Net Assets, January 1, 2009	\$ 490,293	\$ 26,628	\$ 515,731	\$ 1,032,652
Adoption of FSP 117-1 Endowments	-	-	-	-
Investment Return:				
Investment Income	-	7,778	-	7,778
Net Realized and Unrealized Gains	<u>-</u>	<u>24,430</u>	-	<u>24,430</u>
Total Investment Return	-	32,208	-	32,208
Contributions	-	-	13,119	13,119
Appropriations of Endowment Assets for Expenditure	<u>(25,000)</u>	<u>(26,362)</u>	-	<u>(51,362)</u>
Endowment Net Assets, December 31, 2009	<u>\$ 465,293</u>	<u>\$ 32,474</u>	<u>\$ 528,850</u>	<u>\$ 1,026,617</u>

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 9 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 U.S. generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2010 or 2009 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 10 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 U.S. 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, 2010 and 2009 had an estimated fair market values of \$104,762 and \$112,000, respectively.

**LIBRARY FOUNDATION OF HENNEPIN COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 10 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 for the years ended December 31, 2010 and 2009, respectively. These contributions are classified as "Contributions, In-Kind" in the accompanying statements of activities. A corresponding rent expense of \$104,000 is reported on a functional basis within the statement of activities for both years ended December 31, 2010 and 2009.

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, 2010 and 2009 had an estimated fair market value of \$104,975 and \$52,927 respectively.

NOTE 11 403(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 \$8,009 and \$7,761 during the years ended December 31, 2010 and 2009, respectively.

NOTE 12 RELATED PARTY

As noted in Notes 1 and 7, the Foundation is affiliated with the Hennepin County Library in various economic relationships. In addition, the Foundation made library support payments totaling \$410,594 and \$782,711 during the years ended December 31, 2010 and 2009, respectively.

NOTE 13 FRIENDS COORDINATION

The Foundation has begun to coordinate Friends of Libraries groups. The Friends groups are fundraising entities who are collaborating with the Foundation to create a comprehensive and unified library support system in Hennepin County. In addition to launching a joint membership program, the groups also hold used book sales to raise funds for their libraries. The Foundation recognizes contributions and sales proceeds on behalf of the groups and holds assets in advised funds for the groups to use in support of Hennepin County Library. For the year ended December 31, 2010, the Friends advised funds totaled \$50,442.