

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Financial Statements

December 31, 2019 and 2018



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, 2019 and 2018, 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, 2019 and 2018, 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 28, 2020

Akins Henke and Company

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Statements of Financial Position

December 31, 2019 and 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
Current Assets:		
Cash and cash equivalents	\$ 2,195,475	803,692
Promises to give	79,214	428,383
Prepaid expenses	32,229	54,418
Total Current Assets	<u>2,306,918</u>	<u>1,286,493</u>
Noncurrent Assets:		
Promises to give	25,000	47,500
Investments	2,773,407	2,348,913
Equipment and website, net	9,880	15,128
Total Noncurrent Assets	<u>2,808,287</u>	<u>2,411,541</u>
TOTAL ASSETS	\$ <u>5,115,205</u>	<u>3,698,034</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable	\$ 91,280	12,161
Accrued compensation	32,781	21,916
Deferred program fees	207,979	183,557
Total Current Liabilities	<u>332,040</u>	<u>217,634</u>
Net Assets:		
Without donor restrictions:		
Board designated	675,729	607,812
Undesignated	2,430,596	1,048,064
Total Without Donor Restrictions	<u>3,106,325</u>	<u>1,655,876</u>
With donor restrictions	1,676,840	1,824,524
Total Net Assets	<u>4,783,165</u>	<u>3,480,400</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>5,115,205</u>	<u>3,698,034</u>

See accompanying notes to the financial statements.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Statement of Activities

For the Year Ended December 31, 2019

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

See accompanying notes to the financial statements.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Statement of Activities

For the Year Ended December 31, 2018

	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>
	<u>Restrictions</u>	<u>Restrictions</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	<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>\$ 1,655,876</u>	 <u>1,824,524</u>	 <u>3,480,400</u>

See accompanying notes to the financial statements.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

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

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

See accompanying notes to the financial statements.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

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

Statements of Cash Flows

For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,302,765	57,872
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	7,088	16,371
Realized and unrealized (gains) losses on investments	(300,938)	155,903
Permanently restricted contributions received	(25,231)	(600)
Changes in assets and liabilities:		
Decrease in promises to give	371,669	51,435
(Increase) decrease in prepaid expenses	22,189	(9,242)
Increase (decrease) in accounts payable	79,119	(18,664)
Decrease in grants payable	-	(200,000)
Increase (decrease) in accrued compensation	10,865	(2,154)
Increase in deferred revenue	24,422	25,750
Net cash provided by operating activities	<u>1,491,948</u>	<u>76,671</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(1,840)	(10,712)
Purchase of investments	(153,267)	(75,767)
Proceeds from sale of investments	29,711	26,929
Net cash used for investing activities	<u>(125,396)</u>	<u>(59,550)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently restricted contributions received	<u>25,231</u>	<u>600</u>
INCREASE IN CASH AND CASH EQUIVALENTS	1,391,783	17,721
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>803,692</u>	<u>785,971</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,195,475</u>	<u>803,692</u>

See accompanying notes to the financial statements.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2019 and 2018

(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

Friends of HCL has adopted Accounting Standards Update (ASU) No. 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)* and Accounting Standards Update (ASU) No. 2014-09 *Revenue from Contracts with Customers (Topic 606)*, as amended. Management believes these standards improve the usefulness and understandability of Friends of HCL's financial reporting.

Analysis of various provisions of these standards resulted in no significant changes in the way the Friends of HCL recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

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 \$675,729 and \$607,812, respectively, of funds designated by the Board of Directors as a quasi-endowment fund for library collections at December 31, 2019 and 2018.

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.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2019 and 2018

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

Revenue and Support

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

Federal and Minnesota grants are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Consequently, at December 31, 2019 and 2018, contributions approximating \$88,465, and \$146,299, respectively, have not been recognized in the accompanying financial statements because the conditions have not been met.

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

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

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.

Promises to Give

Unconditional promises to give are recognized at net realizable value if due within one year, and at net present value if due over one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met. 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, 2019 and 2018

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

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. The investments are exposed to various risks, such as interest rate, market, and credit risks.

Fair Value Measurements

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

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

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

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

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

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2019 and 2018

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

Estimates

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

Equipment, Website and Depreciation

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

Equipment	3-10 years
Website	3 years

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, 2019 and 2018, management believes Friends of HCL had no significant concentration of credit risk.

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.

Advertising Costs

Advertising costs are expensed when incurred. Total advertising costs were \$4,933 and \$3,157 for the years ended December 31, 2019 and 2018, respectively.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2019 and 2018

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

Functional Allocation of Expenses

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

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

Tax Exempt Status

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

It is the policy of Friends of HCL, in accordance with U.S. GAAP, to assess any uncertain tax positions and, if necessary, record a liability and related income tax expense for any uncertain tax positions. Management has analyzed the tax positions taken by Friends of HCL and has concluded that as of December 31, 2019 and 2018, 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 28, 2020, the date which the financial statements were available for issue.

(2) **PROMISES TO GIVE**

Promises to give consist of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Due in Less than One Year	\$ 79,214	428,383
Due in One to Five Years	25,000	50,000
Discount for Net Present Value	<u>-</u>	<u>(2,500)</u>
Total	<u>\$ 104,214</u>	<u>475,883</u>

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2019 and 2018

(3) **LIQUIDITY AND FINANCIAL ASSETS**

Friends of HCL regularly monitors liquidity required to meet its operating needs, while also striving to maximize the investment of its available funds. Friends of HCL has various sources of liquidity at its disposal, including cash 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 book endowment funds are not available for operation needs unless approved by the Board.

The following table reflects the Friends of HCL's financial assets as of December 31, 2019 and 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date.

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 2,195,475	803,692
Promises to give	104,214	475,883
Investments	<u>2,773,407</u>	<u>2,348,913</u>
Total financial assets	5,073,096	3,628,488
Less amounts not available to be used within one year:		
Board designated book endowment	(675,729)	(607,812)
Donor restricted for perpetuity	(579,535)	(554,304)
Donor restricted for use and time	<u>(580,089)</u>	<u>(958,428)</u>
Financial assets available within one year to meet cash needs for general expenditures	\$ <u>3,237,743</u>	<u>1,507,944</u>

(4) **EQUIPMENT AND WEBSITE**

Equipment and website consist of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Equipment	\$ 36,038	34,198
Website	40,000	40,000
Accumulated Depreciation	<u>(66,158)</u>	<u>(59,070)</u>
Total	\$ <u>9,880</u>	<u>15,128</u>

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2019 and 2018

(5) **INVESTMENTS**

Investments are comprised of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Money Market	\$ 75,280	1,525
Corporate Bonds and Notes	70,397	-
Treasury Bills	-	59,454
Common Stock	2,229	-
Mutual Funds:		
Fixed Income	990,588	1,139,125
Government Obligations	-	95,807
Equity Funds	1,474,281	906,845
Real Estate	160,632	117,765
Commodities	-	<u>28,392</u>
Total	<u>\$ 2,773,407</u>	<u>2,348,913</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, 2019 and 2018:

	<u>2019</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market	\$ 75,280	-	-	75,280
Corporate Bonds and Notes	-	70,397	-	70,397
Common Stock	2,229	-	-	2,229
Mutual Funds:				
Fixed Income	990,588	-	-	990,588
Equity Funds	1,474,281	-	-	1,474,281
Real Estate	<u>160,632</u>	-	-	<u>160,632</u>
Total	<u>\$ 2,703,010</u>	<u>70,397</u>	-	<u>2,773,407</u>

	<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, 2019 and 2018

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

Net assets with donor restriction are restricted for the following purposes as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purposes:		
Cole fund	\$ 1,456	5,749
Literacy fund	646,500	746,500
Special collections and digitization	78,972	102,800
Doty fund	50,000	75,000
Nature and environmental programming	-	35,000
Local friends groups	210,519	243,299
Kesti book fund	9,589	10,521
Talk of the Stacks	-	20,000
Plymouth library	5,360	-
Various small programs	<u>2,219</u>	<u>3,391</u>
	<u>1,004,615</u>	<u>1,242,260</u>
Endowment fund:		
Funds to be held in perpetuity	579,535	554,304
Earnings subject to appropriation and restricted to collection acquisitions	<u>92,690</u>	<u>27,960</u>
	<u>672,225</u>	<u>582,264</u>
 Total Net Assets With Donor Restrictions	 \$ <u>1,676,840</u>	 <u>1,824,524</u>

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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Satisfaction of purpose restrictions:		
Doty fund	\$ 25,000	25,000
Childrens programming	5,000	-
Book collections	23,828	-
Kesti book fund	1,000	1,000
Nature and environmental programming	35,000	-
Literacy fund	100,000	100,000
Local friends	124,253	121,093
Talk of the stacks	20,000	-
Various small programs	1,200	-
Endowment fund appropriation	<u>35,128</u>	<u>21,124</u>
Total Net Assets Released From Restrictions	\$ <u>370,409</u>	<u>268,217</u>

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2019 and 2018

(8) BOOK ENDOWMENT

Friends of HCL's endowment fund was established for the purpose of augmenting the library's annual book budget. A portion of income from the invested funds is supplied to the library each year. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as an endowment. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of Friends of the Hennepin County Library has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, Friends of HCL classifies contributions to be held in perpetuity as net assets with donor restrictions as the original value of the gifts to the endowment and the value of subsequent gifts to the endowment. The remaining portion of donor-restricted endowment funds, if any that are not classified as to be held in perpetuity, are classified as purpose restricted until those amounts are appropriated for expenditure by Friends of HCL.

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

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

Investment Objectives and Strategies

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

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2019 and 2018

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

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, 2019 or 2018, in the donor-restricted endowment funds.

Endowment net asset composition for the years ended December 31, 2019 and 2018 are as follows:

	2019		
	Without Donor Restriction	With Donor Restriction	Total
Donor-Restricted Endowment Funds:			
Original gift amounts to be held in perpetuity	\$ -	579,535	579,535
Accumulated investment income	-	92,690	92,690
Board-Designated Endowment Funds	<u>675,729</u>	<u>-</u>	<u>675,729</u>
Total Funds	<u>\$ 675,729</u>	<u>672,225</u>	<u>1,347,954</u>
	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>

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2019 and 2018

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

The following is a summary of endowment funds subject to the UPMIFA for the years ended December 31, 2019 and 2018:

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

	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>

(9) **FRIENDS COORDINATION**

Friends of HCL coordinates local friends of libraries groups. The local friends groups are fundraising entities who are collaborating with Friends of HCL to create a comprehensive and unified library support system in Hennepin County. In addition to managing a joint membership program, Friends of HCL recognizes contributions and book sales proceeds on behalf of the local groups as restricted revenues, and holds assets in net assets with donor restrictions for use in support of Hennepin County Library. The local friends funds totaled \$210,519 and \$243,299 for the years ended December 31, 2019 and 2018, respectively, and are included in net assets with donor restrictions.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

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(10) **RELATED PARTY**

As noted in Note 1, Friends of HCL is affiliated with the Hennepin County Library in various economic relationships. In addition, Friends of HCL provided library grants totaling \$1,268,015 and \$1,143,147 during the years ended December 31, 2019 and 2018, respectively.

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

Friends of HCL sponsors a 403(b) retirement savings plan for its employees. Employees who work 1,000 hours annually are eligible. Friends of HCL makes contributions into the plan equal to 3% of each employee's total annual compensation. Matching contributions to the plan were \$16,856 and \$14,085 during the years ended December 31, 2019 and 2018, respectively.

(12) **DONATED SERVICES AND MATERIALS**

The office space and storage areas of Friends of HCL are provided by the Hennepin County Library at no charge. 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 services which meets the criteria for recognizing as a donated service. Donated services and materials were as follow for 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Occupancy and Storage	\$ 64,365	64,365
Catering	<u>7,534</u>	<u>15,848</u>
Total	<u>\$ 71,899</u>	<u>80,213</u>

(13) **SUBSEQUENT EVENTS**

Beginning in March 2020, the COVID-19 outbreak in the United States has had a significant impact on the operations of Friends of HCL. In mid-March, all Hennepin County Library buildings, including Minneapolis Central Library where the Friends of HCL office resides, closed to patrons and staff. Subsequently, all donations received through the U.S. Mail since that time have not been processed or recognized. The eight-person Friends of HCL staff is continuing to work remotely from home offices. With the State of Minnesota "stay at home" order currently in effect for the period of March 28, 2020 to April 10, 2020, a realistic timeline for the re-opening of Hennepin County Library buildings remains unknown at this time. In addition, the Pen Pals season finale on April 30/May 1, with 1,400 tickets sold, has been postponed to a yet-to-be-determined date in late 2020 or early 2021. Friends of HCL has also seen a significant reduction in the value of its investments held due to market declines. The result of the above factors are economic uncertainties which are likely to negatively impact the overall revenue of Friends of HCL in 2020. The financial impact and duration of these economic uncertainties cannot be reasonably estimated at this time.