

FRIENDS OF THE HENNEPIN COUNTY LIBRARY
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
BALANCE SHEETS	3
STATEMENTS OF ACTIVITIES	4
STATEMENTS OF FUNCTIONAL EXPENSES	6
STATEMENTS OF CASH FLOWS	10
NOTES TO FINANCIAL STATEMENTS	11

INDEPENDENT AUDITORS' 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 balance sheets as of December 31, 2015 and 2014, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

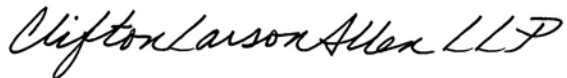
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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.

Board of Directors
Friends of the Hennepin County Library

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, 2015 and 2014, and the changes 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Minneapolis, Minnesota
April 14, 2016

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY
BALANCE SHEETS
DECEMBER 31, 2015 AND 2014**

ASSETS	2015	2014
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 320,062	\$ 376,304
Grants and Pledges Receivable, Net	160,526	37,171
Inventory	-	67,087
Prepaid Expenses	57,350	19,900
Total Current Assets	537,938	500,462
NON-CURRENT ASSETS		
Investments	1,839,005	1,883,444
Furniture and Equipment, Net	9,532	16,655
Total Non-Current Assets	1,848,537	1,900,099
Total Assets	\$ 2,386,475	\$ 2,400,561
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 4,258	\$ 22,776
Accrued Expenses	5,948	5,337
Deferred Program Fees	164,497	138,551
Total Liabilities	174,703	166,664
NET ASSETS		
Unrestricted:		
Board Designated	578,313	623,903
Undesignated	792,618	852,560
Total Unrestricted	1,370,931	1,476,463
Temporarily Restricted	290,992	209,235
Permanently Restricted - Book Endowment	549,849	548,199
Total Net Assets	2,211,772	2,233,897
Total Liabilities and Net Assets	\$ 2,386,475	\$ 2,400,561

See accompanying Notes to Financial Statements.

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
Corporate, Foundation and Government Grants	\$ 441,147	\$ 166,859	\$ -	\$ 608,006
Contributions, In-Kind	128,217	-	-	128,217
Book Shop Sales	27,495	-	-	27,495
Memberships, Individual Gifts and Memorials	1,046,426	-	1,650	1,048,076
Program Revenue	181,475	-	-	181,475
Investment Income (Loss)	(34,273)	(29,565)	-	(63,838)
Total Support and Revenue	<u>1,790,487</u>	<u>137,294</u>	<u>1,650</u>	<u>1,929,431</u>
Net Assets Released from Restrictions	<u>55,537</u>	<u>(55,537)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	1,846,024	81,757	1,650	1,929,431
EXPENSES				
Program Services	1,390,628	-	-	1,390,628
General and Administrative	156,435	-	-	156,435
Fund Raising	404,493	-	-	404,493
Total Expenses	<u>1,951,556</u>	<u>-</u>	<u>-</u>	<u>1,951,556</u>
CHANGE IN NET ASSETS	(105,532)	81,757	1,650	(22,125)
Net Assets - Beginning of the Year	<u>1,476,463</u>	<u>209,235</u>	<u>548,199</u>	<u>2,233,897</u>
NET ASSETS - END OF YEAR	<u>\$ 1,370,931</u>	<u>\$ 290,992</u>	<u>\$ 549,849</u>	<u>\$ 2,211,772</u>

See accompanying Notes to Financial Statements.

2014

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 368,885	\$ 39,162	\$ -	\$ 408,047
297,158	-	-	297,158
90,645	-	-	90,645
848,778	-	1,100	849,878
167,565	-	-	167,565
18,833	16,053	-	34,886
<u>1,791,864</u>	<u>55,215</u>	<u>1,100</u>	<u>1,848,179</u>
<u>76,766</u>	<u>(76,766)</u>	<u>-</u>	<u>-</u>
1,868,630	(21,551)	1,100	1,848,179
1,654,852	-	-	1,654,852
153,907	-	-	153,907
349,883	-	-	349,883
<u>2,158,642</u>	<u>-</u>	<u>-</u>	<u>2,158,642</u>
(290,012)	(21,551)	1,100	(310,463)
<u>1,766,475</u>	<u>230,786</u>	<u>547,099</u>	<u>2,544,360</u>
<u>\$ 1,476,463</u>	<u>\$ 209,235</u>	<u>\$ 548,199</u>	<u>\$ 2,233,897</u>

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015**

	Programs				Total Program Services
	Library Support and Grants	Programs and Public Awareness	Pen Pals Author Series	Bookshop	
Salaries	\$ 22,418	\$ 91,725	\$ 17,911	\$ 22,664	\$ 154,718
Payroll Taxes	1,647	6,657	1,296	1,622	11,222
Employee Benefits	2,087	8,114	1,720	2,322	14,243
Total Personnel Costs	<u>26,152</u>	<u>106,496</u>	<u>20,927</u>	<u>26,608</u>	<u>180,183</u>
Accounting/Audit	-	-	-	-	-
Insurance	-	-	-	-	-
Processing Fees	-	-	10,247	545	10,792
Occupancy	-	39,000	-	19,182	58,182
Marketing and Education	-	3,472	36,890	-	40,362
Office Supplies	-	-	421	-	421
Dues and Subscriptions	-	1,991	-	-	1,991
Consultants	-	4,790	9,461	-	14,251
Cost of Goods Sold	-	-	-	62,471	62,471
Meetings and Conferences	-	288	-	-	288
Travel	-	157	5,547	-	5,704
Library Support	826,413	-	-	-	826,413
Postage and Printing	-	20,477	19,521	-	39,998
Program Events	-	21,605	125,577	-	147,182
Bookstore Expense	-	-	-	2,390	2,390
Miscellaneous	-	-	-	-	-
Expenses Before Depreciation	<u>852,565</u>	<u>198,276</u>	<u>228,591</u>	<u>111,196</u>	<u>1,390,628</u>
Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenses	<u>\$ 852,565</u>	<u>\$ 198,276</u>	<u>\$ 228,591</u>	<u>\$ 111,196</u>	<u>\$ 1,390,628</u>

See accompanying Notes to Financial Statements.

Support

General and Administrative	Fundraising	Total Support Services	Total All Services
\$ 70,505	\$ 179,367	\$ 249,872	\$ 404,590
5,095	13,026	18,121	29,343
26,610	16,185	42,795	57,038
<u>102,210</u>	<u>208,578</u>	<u>310,788</u>	<u>490,971</u>
19,792	-	19,792	19,792
3,162	-	3,162	3,162
5,042	7,275	12,317	23,109
13,000	13,000	26,000	84,182
-	-	-	40,362
1,843	692	2,535	2,956
934	7,072	8,006	9,997
-	36,465	36,465	50,716
-	-	-	62,471
3,121	4,156	7,277	7,565
93	366	459	6,163
-	-	-	826,413
209	109,278	109,487	149,485
-	17,611	17,611	164,793
-	-	-	2,390
<u>2,842</u>	<u>-</u>	<u>2,842</u>	<u>2,842</u>
152,248	404,493	556,741	1,947,369
<u>4,187</u>	<u>-</u>	<u>4,187</u>	<u>4,187</u>
<u>\$ 156,435</u>	<u>\$ 404,493</u>	<u>\$ 560,928</u>	<u>\$ 1,951,556</u>

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2014**

	Programs				Total Program Services
	Library Support and Grants	Programs and Public Awareness	Pen Pals Author Series	Bookshop	
Salaries	\$ 57,963	\$ 128,741	\$ 13,795	\$ 52,677	\$ 253,176
Payroll Taxes	4,148	9,137	977	3,738	18,000
Employee Benefits	5,916	16,032	1,753	6,249	29,950
Total Personnel Costs	<u>68,027</u>	<u>153,910</u>	<u>16,525</u>	<u>62,664</u>	<u>301,126</u>
Accounting/Audit	-	-	-	-	-
Insurance	-	-	-	-	-
Processing Fees	-	-	9,658	1,879	11,537
Occupancy	-	39,000	-	39,000	78,000
Marketing and Education	-	21,936	66,761	428	89,125
Office Supplies	-	928	417	-	1,345
Dues and Subscriptions	-	2,515	600	-	3,115
Consultants	-	25,259	9,750	150	35,159
Cost of Goods Sold	-	-	-	95,879	95,879
Meetings and Conferences	-	727	698	75	1,500
Travel	-	3,368	4,239	10	7,617
Library Support	803,698	-	-	-	803,698
Postage and Printing	-	30,366	10,271	9	40,646
Program Events	-	25,364	157,497	1,944	184,805
Bookstore Expense	-	-	-	1,300	1,300
Bad Debt Expense	-	-	-	-	-
Expenses Before Depreciation	<u>871,725</u>	<u>303,373</u>	<u>276,416</u>	<u>203,338</u>	<u>1,654,852</u>
Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenses	<u>\$ 871,725</u>	<u>\$ 303,373</u>	<u>\$ 276,416</u>	<u>\$ 203,338</u>	<u>\$ 1,654,852</u>

See accompanying Notes to Financial Statements.

Support

General and Administrative	Fundraising	Total Support Services	Total All Services
\$ 71,351	\$ 153,179	\$ 224,530	\$ 477,706
5,161	10,889	16,050	34,050
17,381	18,312	35,693	65,643
<u>93,893</u>	<u>182,380</u>	<u>276,273</u>	<u>577,399</u>
20,291	-	20,291	20,291
3,673	-	3,673	3,673
3,607	6,078	9,685	21,222
13,000	13,000	26,000	104,000
-	1,973	1,973	91,098
1,628	2,140	3,768	5,113
1,263	6,082	7,345	10,460
-	16,694	16,694	51,853
-	-	-	95,879
7,669	2,582	10,251	11,751
683	524	1,207	8,824
-	-	-	803,698
563	97,192	97,755	138,401
-	21,238	21,238	206,043
-	-	-	1,300
<u>3,161</u>	<u>-</u>	<u>3,161</u>	<u>3,161</u>
149,431	349,883	499,314	2,154,166
<u>4,476</u>	<u>-</u>	<u>4,476</u>	<u>4,476</u>
<u>\$ 153,907</u>	<u>\$ 349,883</u>	<u>\$ 503,790</u>	<u>\$ 2,158,642</u>

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (22,125)	\$ (310,463)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	4,187	4,476
Realized Gain on Securities	-	(57,309)
Unrealized Loss on Securities	77,340	35,007
Loss on Disposal of Equipment	2,936	-
Permanently Restricted Contributions Received	(1,650)	(1,100)
(Increase) Decrease in Current Assets:		
Pledges Receivable	(123,355)	(26,010)
Prepaid Assets	(37,450)	(4,911)
Inventories	67,087	32,101
Increase (Decrease) in Current Liabilities:		
Accounts Payable	(18,518)	(6,039)
Accrued Expenses	611	(1,216)
Deferred Revenue	25,946	34,527
Net Cash Used by Operating Activities	(24,991)	(300,937)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Equipment	-	(4,607)
Purchases of Investments	(548,675)	(176,774)
Proceeds from Sale of Investments	515,774	390,000
Net Cash Provided (Used) by Investing Activities	(32,901)	208,619
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Permanently Restricted Contributions Received	1,650	1,100
NET DECREASE IN CASH AND CASH EQUIVALENTS	(56,242)	(91,218)
Cash and Cash Equivalents - Beginning	376,304	467,522
CASH AND CASH EQUIVALENTS - ENDING	\$ 320,062	\$ 376,304
SUPPLEMENTAL DISCLOSURES		
In-Kind Contributions	\$ 128,217	\$ 297,158

See accompanying Notes to Financial Statements.

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The purpose 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.

Financial Statements

Net assets and revenues, gains and losses are classified based on donor imposed restrictions. Accordingly, net assets of Friends of HCL 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 Friends of HCL or passage of time.

Permanently Restricted – Those resources subject to donor imposed restrictions that they be maintained permanently by Friends of HCL.

Friends of HCL have 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, Friends of HCL considers all highly liquid debt instruments with an initial maturity of less than three months to be cash or cash equivalents. The Organization maintains cash in accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

Grants and Pledges Receivable

Accounts receivables are stated at net realizable value. Accounts are due within 30 days of invoice date. Friends of HCL believe that all accounts are collectible and no allowance has been recorded as of December 31, 2015 and 2014. The allowance is based on management judgment considering historical information and Friends of HCL's policy of writing off accounts when management deems them not collectible. All receivables are expected to be collected within one year.

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. The bookstore was closed in May 2015.

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, Friends of HCL 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.

Board Designation of Unrestricted Net Assets

Friends of HCL'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 as disclosed in Note 5.

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

Friends of HCL follow 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 6.

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

Fair value measurement standards define fair value, establish a framework for measuring fair value, establish a fair value hierarchy based on the quality of inputs used to measure fair value, and require expanded disclosures about fair value measurements. Friends of HCL accounts for 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 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 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.

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.

Contributions

All contributions are considered available for unrestricted use unless specifically restricted by the donor. Unconditional promises to give due in the next year are reported at the present value of their estimated future cash flows, using risk-free interest rates applicable to the year in which the promises are to be received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activity as net assets released from restrictions. However, support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

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 the Organization. Donated materials are valued at market value at the date of donation.

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

Advertising costs are expensed when incurred. Total advertising costs were \$40,362 and \$91,098 for the years ended December 31, 2015 and 2014, respectively.

Functional Allocation of Expenses

Friends of HCL 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 Friends of HCL's personnel, usage of the facility and management's evaluation and judgment.

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.

Friends of HCL 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. Friends of HCL's tax returns are subject to review and 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.

Reclassifications

Certain amounts in the 2014 financial statements have been reclassified to be consistent with the presentation in 2015. These reclassifications had no impact on changes in net assets as previously reported.

Subsequent Events

In preparing these financial statements, Friends of HCL has evaluated events and transactions for potential recognition or disclosure through April 14, 2016, the date the financial statements were available to be issued.

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 2 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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Cash and Money Market	\$ 45,948	\$ 540,343
Mutual Funds - Income Funds	788,959	336,763
Mutual Funds - Equity Funds	881,077	929,937
Mutual Funds - Real Estate	92,026	52,473
Mutual Funds - Commodities	<u>30,995</u>	<u>23,928</u>
Total	<u>\$ 1,839,005</u>	<u>\$ 1,883,444</u>

Investment income is comprised of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest, Dividends	\$ 33,032	\$ 29,968
Investment Fees	(19,530)	(17,384)
Realized Gain	-	57,309
Unrealized Gain (Loss)	<u>(77,340)</u>	<u>(35,007)</u>
Total	<u>\$ (63,838)</u>	<u>\$ 34,886</u>
Investment Return %	-3.5%	1.9%

NOTE 3 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, 2015 and 2014:

	<u>2015</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds - Income Funds	\$ 788,959	\$ -	\$ -	\$ 788,959
Mutual Funds - Equity Funds	881,077	-	-	881,077
Mutual Funds - Real Estate	92,026	-	-	92,026
Mutual Funds - Commodities	<u>30,995</u>	-	-	<u>30,995</u>
Total	<u>\$ 1,793,057</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,793,057</u>

	<u>2014</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds - Income Funds	\$ 336,763	\$ -	\$ -	\$ 336,763
Mutual Funds - Equity Funds	929,937	-	-	929,937
Mutual Funds - Real Estate	52,473	-	-	52,473
Mutual Funds - Commodities	<u>23,928</u>	-	-	<u>23,928</u>
Total	<u>\$ 1,343,101</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,343,101</u>

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 4 FURNITURE AND EQUIPMENT

Capitalized assets consist of the following at December 31, 2015 and 2014:

	2015	2014
Furniture and Equipment	\$ 22,464	\$ 26,255
Accumulated Depreciation	(12,932)	(9,600)
Total	<u>\$ 9,532</u>	<u>\$ 16,655</u>

NOTE 5 NET ASSETS

Unrestricted Board Designated Net Assets

Board designated net assets at December 31, 2015 and 2014 consist of the following amounts:

	2015	2014
Board Designated Book Endowment	<u>\$ 578,313</u>	<u>\$ 623,903</u>

The purpose of the board-designated fund is to enhance the Friends book endowment. Income from the invested funds is used to augment the library's annual collection budget. The Board may repurpose the fund at any time.

Temporarily Restricted

Temporarily restricted net assets at December 31, 2015 and 2014 consist of the following amounts:

	2015	2014
Cole Fund	\$ 8,938	\$ 8,921
Website Redesign	39,700	-
Central Library	24,662	-
Collections at Home	25,000	-
Local Friends	135,877	114,455
Homework Help	10,000	-
Teen Tech Center	30,000	-
Kesti Book Fund	9,318	8,298
Unappropriated Endowment Earnings	-	61,230
National Endowment for the Arts	-	10,000
Various Small Programs	7,497	6,331
Total Temporarily Restricted Net Assets	<u>\$ 290,992</u>	<u>\$ 209,235</u>

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 5 NET ASSETS (CONTINUED)

Permanently Restricted

Permanently restricted net assets at December 31, 2015 and 2014 consist of the following amounts:

	<u>2015</u>	<u>2014</u>
Permanently Restricted Book Endowment	<u>\$ 549,849</u>	<u>\$ 548,199</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.

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, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
ITP Retirement Program	\$ -	\$ 3,161
Cole Fund	-	3,000
Local Friends	10,037	13,478
National Endowment for the Arts	10,000	-
Kesti Book Fund	-	1,260
Unappropriated Endowment Earnings	31,665	54,464
Various Small Programs	3,835	1,403
Total Temporarily Restricted Net Assets	<u>\$ 55,537</u>	<u>\$ 76,766</u>

NOTE 6 BOOK ENDOWMENT

Friends of HCL'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.

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 6 BOOK ENDOWMENT (CONTINUED)

Interpretation of Relevant Law

The Board of Directors of Friends of the Hennepin County Library has interpreted the 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 permanently restricted net assets as 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 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 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, 2015 and 2014 are as follows:

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-Restricted Endowment Funds	\$ -	\$ -	\$ 549,849	\$ 549,849
Board-Designated Endowment Funds	578,313	-	-	578,313
Total Funds	<u>\$ 578,313</u>	<u>\$ -</u>	<u>\$ 549,849</u>	<u>\$ 1,128,162</u>

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-Restricted Endowment Funds	\$ -	\$ 61,230	\$ 548,199	\$ 609,429
Board-Designated Endowment Funds	623,903	-	-	623,903
Total Funds	<u>\$ 623,903</u>	<u>\$ 61,230</u>	<u>\$ 548,199</u>	<u>\$ 1,233,332</u>

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 6 BOOK ENDOWMENT (CONTINUED)

The following is a summary of endowment funds subject to the UPMIFA for the years ended December 31, 2015 and 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2015 Total</u>
Endowment Net Assets, January 1, 2015	\$ 623,903	\$ 61,230	\$ 548,199	\$ 1,233,332
Investment Return:				
Investment Income	(24,738)	(29,565)	-	(54,303)
Contributions	-	-	1,650	1,650
Appropriations of Endowment Assets for Expenditure	<u>(20,852)</u>	<u>(31,665)</u>	<u>-</u>	<u>(52,517)</u>
Endowment Net Assets, December 31, 2015	<u>\$ 578,313</u>	<u>\$ -</u>	<u>\$ 549,849</u>	<u>\$ 1,128,162</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014 Total</u>
Endowment Net Assets, January 1, 2014	\$ 611,596	\$ 99,641	\$ 547,099	\$ 1,258,336
Investment Return:				
Investment Income	12,307	16,053	-	28,360
Contributions	-	-	1,100	1,100
Appropriations of Endowment Assets for Expenditure	<u>-</u>	<u>(54,464)</u>	<u>-</u>	<u>(54,464)</u>
Endowment Net Assets, December 31, 2014	<u>\$ 623,903</u>	<u>\$ 61,230</u>	<u>\$ 548,199</u>	<u>\$ 1,233,332</u>

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 Friends of HCL 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, 2015 or 2014 in permanently restricted donor endowment funds.

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 6 BOOK ENDOWMENT (CONTINUED)

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 investments managers, and has established various asset quality and limitations thresholds. Actual returns in any given year may vary from this amount.

Spending Policy

Friends of HCL has a policy of appropriating endowment earnings for distribution each year. In establishing this policy, Friends of HCL considered the long-term expected return on its endowment. Approved distributions that are not used for a calendar year will accumulate and be available for distribution in subsequent years.

NOTE 7 DONATED SERVICES AND MATERIALS

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 statements since such time valuation does not conform to recognition standards under U.S. generally accepted accounting principles.

In addition, books are donated to Friends of HCL 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, 2015 and 2014 had estimated fair market values of \$-0- and \$52,888, respectively.

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 \$84,182 and \$104,000 for the years ended December 31, 2015 and 2014, respectively. These contributions are classified as "Contributions, In-Kind" in the accompanying statements of activities. A corresponding rent expense of \$84,182 and \$104,000 is reported on a functional basis within the statements of activities for both years ended December 31, 2015 and 2014, respectively.

**FRIENDS OF THE HENNEPIN COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 7 DONATED SERVICES AND MATERIALS (CONTINUED)

In addition to books and office space, Friends of HCL 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, 2015 and 2014 had an estimated fair market value of \$44,035 and \$140,270, respectively. Of these amounts, \$-0- and \$47,188 were received during December 31, 2015 and 2014, respectively, from a business owned by a Board member and are considered related party transactions.

NOTE 8 403(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 \$11,946 and \$13,108 during the years ended December 31, 2015 and 2014, respectively.

NOTE 9 RELATED PARTY

As noted in Note 1, Friends of HCL is affiliated with the Hennepin County Library in various economic relationships. In addition, Friends of HCL made library support payments totaling \$826,413 and \$803,698 during the years ended December 31, 2015 and 2014, respectively.

NOTE 10 FRIENDS COORDINATION

The Friends of HCL coordinate local friends of libraries groups. The local friends groups are fundraising entities who are collaborating with Friends of HCL to create a comprehensive and unified library support system in Hennepin County. In addition to managing a joint membership program, Friends of HCL recognizes contributions and book sales proceeds on behalf of the local groups as temporarily restricted revenues, and holds assets in donor advised funds for the groups to use in support of Hennepin County Library. The local friends advised funds totaled \$135,877 and \$114,455 for the years ended December 31, 2015 and 2014, respectively, and are included in temporarily restricted net assets.

NOTE 11 COMMITMENTS

The Board of Directors of Friends of HCL approved a commitment of \$870,000 in support the Hennepin County Library for 2016 to be used for the Library's priorities of Youth programs, Readers of All Ages and Underserved programs.