

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Financial Statements

December 31, 2016 and 2015



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 statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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 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, 2016 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.

Other Matter

The financial statements of Friends of the Hennepin County Library as of and for the year ended December 31, 2015 were audited by other auditors. Those auditors expressed an unmodified opinion on those financial statements in their report dated April 14, 2016.

May 23, 2017

Akins Henke and Company

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Statements of Financial Position

December 31, 2016 and 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Current Assets:		
Cash and cash equivalents	\$ 580,084	320,062
Grants receivable	20,800	40,212
Promises to give	268,698	120,314
Prepaid expenses	30,269	57,350
Total Current Assets	<u>899,851</u>	<u>537,938</u>
Noncurrent Assets:		
Promises to give	495,000	-
Investments	2,165,715	1,839,005
Equipment and website, net	36,879	9,532
Total Noncurrent Assets	<u>2,697,594</u>	<u>1,848,537</u>
TOTAL ASSETS	\$ <u>3,597,445</u>	<u>2,386,475</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable	\$ 27,956	4,258
Accrued expenses	6,000	5,948
Deferred program fees	186,015	164,497
Total Current Liabilities	<u>219,971</u>	<u>174,703</u>
Net Assets:		
Unrestricted:		
Board designated	600,190	578,313
Undesignated	1,024,075	792,618
Total Unrestricted Net Assets	<u>1,624,265</u>	<u>1,370,931</u>
Temporarily restricted	1,201,610	290,992
Permanently restricted	551,599	549,849
Total Net Assets	<u>3,377,474</u>	<u>2,211,772</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>3,597,445</u>	<u>2,386,475</u>

See accompanying notes to the financial statements.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Statement of Activities

For the Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE:				
Corporate, foundation and government grants	\$ 598,655	88,633	-	687,288
In-kind contributions	79,365	-	-	79,365
Memberships, individual gifts and memorials	1,030,283	1,055,978	1,750	2,088,011
Program revenue	227,779	-	-	227,779
Investment income	55,605	28,174	-	83,779
Total Support and Revenue	<u>1,991,687</u>	<u>1,172,785</u>	<u>1,750</u>	<u>3,166,222</u>
 NET ASSETS RELEASED FROM RESTRICTIONS:				
Restrictions satisfied by expenditures	<u>262,167</u>	<u>(262,167)</u>	<u>-</u>	<u>-</u>
 EXPENSES:				
Program services	1,472,355	-	-	1,472,355
General and administrative	123,587	-	-	123,587
Fundraising	404,578	-	-	404,578
Total Expenses	<u>2,000,520</u>	<u>-</u>	<u>-</u>	<u>2,000,520</u>
 CHANGE IN NET ASSETS	 253,334	 910,618	 1,750	 1,165,702
 NET ASSETS - BEGINNING OF YEAR	 <u>1,370,931</u>	 <u>290,992</u>	 <u>549,849</u>	 <u>2,211,772</u>
 NET ASSETS - END OF YEAR	 <u>\$ 1,624,265</u>	 <u>1,201,610</u>	 <u>551,599</u>	 <u>3,377,474</u>

See accompanying notes to the financial statements.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Statement of Activities

For the Year Ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE:				
Corporate, foundation and government grants	\$ 441,147	166,859	-	608,006
In-kind contributions	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 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:				
Restrictions satisfied by expenditures	<u>55,537</u>	<u>(55,537)</u>	<u>-</u>	<u>-</u>
 EXPENSES:				
Program services	1,390,628	-	-	1,390,628
General and administrative	156,435	-	-	156,435
Fundraising	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 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 the financial statements.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Statement of Functional Expenses
For the Year Ended December 31, 2016

	<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	\$ 31,369	116,586	40,120	188,075	60,693	172,153	232,846	420,921
Payroll taxes	2,272	8,502	2,904	13,678	4,380	12,487	16,867	30,545
Employee benefits	2,624	10,473	3,442	16,539	7,356	14,991	22,347	38,886
Total personnel costs	<u>36,265</u>	<u>135,561</u>	<u>46,466</u>	<u>218,292</u>	<u>72,429</u>	<u>199,631</u>	<u>272,060</u>	<u>490,352</u>
Accounting/audit	-	-	-	-	20,430	-	20,430	20,430
Insurance	-	-	-	-	2,866	-	2,866	2,866
Processing fees	-	-	13,360	13,360	3,529	9,467	12,996	26,356
Occupancy	-	38,365	-	38,365	13,000	13,000	26,000	64,365
Marketing and education	-	11,248	11,676	22,924	-	508	508	23,432
Office supplies	-	517	548	1,065	1,069	1,606	2,675	3,740
Dues and subscriptions	-	2,884	-	2,884	1,233	6,931	8,164	11,048
Consultants	-	5,002	10,621	15,623	-	31,753	31,753	47,376
Meetings and conferences	-	198	33	231	6,518	3,789	10,307	10,538
Travel	-	255	4,524	4,779	632	1,033	1,665	6,444
Library support	921,308	-	-	921,308	-	-	-	921,308
Postage and printing	-	15,247	7,769	23,016	12	119,644	119,656	142,672
Program events	-	44,992	159,883	204,875	-	12,065	12,065	216,940
Depreciation	936	3,498	1,199	5,633	1,869	5,151	7,020	12,653
Total Expenses	<u>\$ 958,509</u>	<u>257,767</u>	<u>256,079</u>	<u>1,472,355</u>	<u>123,587</u>	<u>404,578</u>	<u>528,165</u>	<u>2,000,520</u>

See accompanying notes to the financial statements.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Statement of Functional Expenses
For the Year Ended December 31, 2015

	Program Services				Support Services				Total
	Library Support and Grants	Programs and Public Awareness	Pen Pals Author Series	Bookshop	Total Program Services	General and Administrative	Fundraising	Total Support Services	
Salaries	\$ 22,418	91,725	17,911	22,664	154,718	70,505	179,367	249,872	404,590
Payroll taxes	1,647	6,657	1,296	1,622	11,222	5,095	13,026	18,121	29,343
Employee benefits	2,087	8,114	1,720	2,322	14,243	26,610	16,185	42,795	57,038
Total personnel costs	26,152	106,496	20,927	26,608	180,183	102,210	208,578	310,788	490,971
Accounting/audit	-	-	-	-	-	19,792	-	19,792	19,792
Insurance	-	-	-	-	-	3,162	-	3,162	3,162
Processing fees	-	-	10,247	545	10,792	5,042	7,275	12,317	23,109
Occupancy	-	39,000	-	19,182	58,182	13,000	13,000	26,000	84,182
Marketing and education	-	3,472	36,890	-	40,362	-	-	-	40,362
Office supplies	-	-	421	-	421	1,843	692	2,535	2,956
Dues and subscriptions	-	1,991	-	-	1,991	934	7,072	8,006	9,997
Consultants	-	4,790	9,461	-	14,251	-	36,465	36,465	50,716
Cost of goods sold	-	-	-	62,471	62,471	-	-	-	62,471
Meetings and conferences	-	288	-	-	288	3,121	4,156	7,277	7,565
Travel	-	157	5,547	-	5,704	93	366	459	6,163
Library support	826,413	-	-	-	826,413	-	-	-	826,413
Postage and printing	-	20,477	19,521	-	39,998	209	109,278	109,487	149,485
Program events	-	21,605	125,577	-	147,182	-	17,611	17,611	164,793
Bookstore expense	-	-	-	2,390	2,390	-	-	-	2,390
Miscellaneous	-	-	-	-	-	2,842	-	2,842	2,842
Depreciation	-	-	-	-	-	4,187	-	4,187	4,187
Total Expenses	\$ 852,565	198,276	228,591	111,196	1,390,628	156,435	404,493	560,928	1,951,556

See accompanying notes to the financial statements.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Statements of Cash Flows

For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES		
Change in net assets	\$ 1,165,702	(22,125)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	12,653	4,187
Realized and unrealized (gains) losses on securities	(64,128)	77,340
Loss on disposal of equipment	-	2,936
Permanently restricted contributions received	(1,750)	(1,650)
Changes in assets and liabilities:		
(Increase) decrease in grants receivable	19,412	(27,000)
Increase in promises to give	(643,384)	(96,355)
(Increase) decrease in prepaid expenses	27,081	(37,450)
Decrease in inventory	-	67,087
Increase (decrease) in accounts payable	23,698	(18,518)
Increase in accrued expenses	52	611
Increase in deferred revenue	21,518	25,946
Net cash provided by (used for) operating activities	<u>560,854</u>	<u>(24,991)</u>
CASH FLOWS PROVIDED BY (USED FOR)		
INVESTING ACTIVITIES		
Purchase of website	(40,000)	-
Purchases of investments	(509,874)	(548,675)
Proceeds from sale of investments	247,292	515,774
Net cash used for investing activities	<u>(302,582)</u>	<u>(32,901)</u>
CASH FLOWS PROVIDED BY (USED FOR)		
FINANCING ACTIVITIES		
Permanently restricted contributions received	1,750	1,650
Net cash provided by financing activities	<u>1,750</u>	<u>1,650</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	260,022	(56,242)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>320,062</u>	<u>376,304</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 580,084</u>	<u>320,062</u>

Supplemental Disclosure of Cash Flow Information

Cash and cash equivalents are defined as cash in checking, savings, and cash on hand.

See accompanying notes to the financial statements.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2016 and 2015

(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.

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 three classes of net assets:

Unrestricted net assets – represent the portion of net assets that are not subject to donor restriction and in which the Board of Directors has discretion as to use.

Temporarily restricted net assets – represent the portion of net assets that arise from contributions that are restricted by donors for specific purposes or time periods.

Permanently restricted net assets – represent the portion of net assets that are to be retained permanently for specific purposes as determined by the donor.

The unrestricted net assets are made up as follows:

Board designated for endowment – amounts designated by the board to be invested in the endowment fund.

Undesignated – accounts for all resources over which the board of directors has discretionary control to use in carrying on the operations of Friends of HCL.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2016 and 2015

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

Unrestricted, Temporarily Restricted and Permanently Restricted Revenue and Support

Under U.S. GAAP, contributions received, whether totally collected or to be paid over time, are recorded in their entirety as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Therefore, the timing of the collection of contributions may differ from the time in which the contributions are recorded as support.

Support that is restricted by the donor 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 activities as net assets released from restrictions.

Friends of HCL 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, Friends of HCL considers all highly liquid debt instruments with an initial maturity of less than three months to be cash or cash equivalents. Friends of HCL maintains checking and savings accounts at one financial institution. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, Friends of HCL's funds may exceed the insured limits.

Grants Receivable

Grants receivables are stated at net realizable value. Grants receivable are due within 30 days of invoice date. Friends of HCL believes that all grants receivable are collectible and no allowance has been recorded as of December 31, 2016 and 2015. The determination for recording an allowance is based on management judgment considering historical information and Friends of HCL's policy of writing off accounts when management deems them not collectible.

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets or as decreases of liabilities or expenses, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The interest rate used to discount future cash flows on the promises to give was 1.0%.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2016 and 2015

(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. 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.

Fixed Assets 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 method of depreciation. The estimated useful lives were as follows:

Equipment	3-10 years
Website	3 years

Deferred Revenue

Deferred revenue consists of sponsorships and ticket sales received in 2016 for Pen Pals events to be held in 2017.

Concentrations of Credit Risk

Financial instruments that potentially subject Friends of HCL to concentrations of credit risk consist principally of grants receivable and promises to give. Management believes concentrations of credit risk with respect to grants receivable and promises to give are limited due to the nature and dollar amounts. As of December 31, 2016, management believes Friends of HCL had no significant concentration of credit risk.

Concentrations of Support

During 2016, approximately 32% of Friends of HCL's support was from one donor, and as of December 31, 2016, 95% of promises to give were from one donor. There were no significant concentrations of support or promises to give in 2015.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2016 and 2015

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

Fair Value Measurements

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

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

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. The corporate bonds 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.

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 market value at the date of donation.

A number of volunteers have made significant contributions of their time to Friends of HCL to help with programs and activities. The value of this contributed time is not reflected in the financial statements as such volunteer time does not meet the criteria for recognition under U.S. GAAP.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2016 and 2015

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

Advertising Costs

Advertising costs are expensed when incurred. Total advertising costs were \$23,432 and \$40,362 for the years ended December 31, 2016 and 2015, respectively.

Functional Allocation of Expenses

Friends of HCL follows the policy of charging identifiable expenses directly to program or support 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.

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.

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, 2016 and 2015, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

Reclassification

Certain 2015 amounts have been reclassified for comparability purposes with those of 2016.

Subsequent Events

Management has evaluated subsequent events for potential recognition and disclosure through May 23, 2017, the date which the financial statements were available for issue.

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2016 and 2015

(2) EQUIPMENT AND WEBSITE

Equipment and website consists of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Equipment	\$ 22,464	22,464
Website	40,000	-
Accumulated Depreciation	<u>(25,585)</u>	<u>(12,932)</u>
Total	<u>\$ 36,879</u>	<u>9,532</u>

(3) PROMISES TO GIVE

Promises to give consist of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Due in Less than One Year	\$ 268,698	120,314
Due in One to Five Years	500,000	-
Discount for Net Present Value	<u>(5,000)</u>	<u>-</u>
Total	<u>\$ 763,698</u>	<u>120,314</u>

(4) INVESTMENTS

Investments are comprised of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Cash and Money Market	\$ 84,164	45,948
Corporate Bonds and Notes	226,146	251,310
Mutual Funds – Fixed Income Funds	756,498	537,649
Mutual Funds – Equity Funds	978,042	881,077
Mutual Funds – Real Estate	88,829	92,026
Mutual Funds – Commodities	<u>32,036</u>	<u>30,995</u>
Total	<u>\$ 2,165,715</u>	<u>1,839,005</u>

Investment income (loss) is comprised of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and Dividends	\$ 40,093	33,032
Investment Fees	(20,442)	(19,530)
Realized and Unrealized Gain (Loss)	<u>64,128</u>	<u>(77,340)</u>
Total	<u>\$ 83,779</u>	<u>(68,838)</u>

FRIENDS OF THE HENNEPIN COUNTY LIBRARY

Notes to the Financial Statements

December 31, 2016 and 2015

(5) **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, 2016 and 2015:

	2016			
	Level 1	Level 2	Level 3	Total
Cash and Money Market	\$ 84,164	-	-	84,164
Corporate Bonds and Notes	-	226,146	-	226,146
Mutual Funds – Income Funds	756,498	-	-	756,498
Mutual Funds – Equity Funds	978,042	-	-	978,042
Mutual Funds – Real Estate	88,829	-	-	88,829
Mutual Funds – Commodities	<u>32,036</u>	<u>-</u>	<u>-</u>	<u>32,036</u>
Total	<u>\$ 1,939,569</u>	<u>226,146</u>	<u>-</u>	<u>2,165,715</u>

	2015			
	Level 1	Level 2	Level 3	Total
Cash and Money Market	\$ 45,948	-	-	45,948
Corporate Bonds and Notes	-	251,310	-	251,310
Mutual Funds – Income Funds	537,649	-	-	537,649
Mutual Funds – Equity Funds	881,077	-	-	881,077
Mutual Funds – Real Estate	92,026	-	-	92,026
Mutual Funds – Commodities	<u>30,995</u>	<u>-</u>	<u>-</u>	<u>30,995</u>
Total	<u>\$ 1,587,695</u>	<u>251,310</u>	<u>-</u>	<u>1,839,005</u>

(6) **NET ASSETS**

Temporarily restricted net assets at December 31, 2016 and 2015 consist of the following amounts:

	2016	2015
Cole Fund	\$ 9,374	8,938
Youth and Families Fund	50,000	-
Website Redesign	-	39,700
Literacy Fund	946,500	-
Central Library	-	24,662
Collections at Home	15,000	25,000
Local Friends	147,703	135,877
Homework Help	-	10,000
Teen Tech Center	-	30,000
Kesti Book Fund	9,854	9,318
Unappropriated Endowment Earnings	20,946	-
Various Small Programs	<u>2,233</u>	<u>7,497</u>
Total Temporarily Restricted Net Assets	<u>\$ 1,201,610</u>	<u>290,992</u>

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(6) **NET ASSETS, (Continued)**

Permanently restricted net assets at December 31, 2016 and 2015 consist of the following amounts:

	<u>2016</u>	<u>2015</u>
Permanently Restricted Book Endowment	\$ <u>551,599</u>	<u>549,849</u>

The purpose of the fund is to augment the library's annual book budget. A portion of investment income from the invested funds is used to provide support to the library each year.

(7) **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 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 Friends of HCL and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation

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(7) **BOOK ENDOWMENT, (continued)**

- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of Friends of HCL
- 7) The investment policies of Friends of HCL

Investment Objectives and Strategies

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

Spending Policy

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

Fund with Deficiencies

From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor requires Friends of HCL to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2016 or 2015 in permanently restricted donor endowment funds.

Endowment net asset composition for the years ended December 31, 2016 and 2015 are as follows:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-Restricted Endowment Funds	\$ -	20,946	551,599	572,545
Board-Designated Endowment Funds	<u>600,189</u>	<u>-</u>	<u>-</u>	<u>600,189</u>
Total Funds	<u>\$ 600,189</u>	<u>20,946</u>	<u>551,599</u>	<u>1,172,734</u>

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(7) **BOOK ENDOWMENT, (continued)**

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

The following is a summary of endowment funds subject to the UPMIFA for the years ended December 31, 2016 and 2015:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets, January 1, 2016	\$ 578,313	-	549,849	1,128,162
Investment Return:				
Interest and Dividends, Net of Fees	7,001	6,696	-	13,697
Net Realized and Unrealized Appreciation	<u>23,437</u>	<u>22,416</u>	-	<u>45,853</u>
Total Investment Return	30,438	29,112	-	59,550
Contributions	-	-	1,750	1,750
Appropriations of Endowment Assets for Expenditure	(8,562)	(8,166)	-	(16,728)
Endowment Net Assets, December 31, 2016	\$ <u>600,189</u>	<u>20,946</u>	<u>551,599</u>	<u>1,172,734</u>

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets, January 1, 2015	\$ 623,903	61,230	548,199	1,233,332
Investment Return: Investment Loss	(24,738)	(29,565)	-	(54,303)
Contributions	-	-	1,650	1,650
Appropriations of Endowment Assets for Expenditure	(20,852)	(31,665)	-	(52,517)
Endowment Net Assets, December 31, 2015	\$ <u>578,313</u>	<u>-</u>	<u>549,849</u>	<u>1,128,162</u>

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(8) **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 statement of functional expenses. In addition, Friends of HCL receives donated catering and advertising which meets the criteria for recognizing as a donated service. Donated services and materials were as follows for 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Occupancy and Storage	\$ 64,365	84,182
Catering	15,000	14,485
Advertising	-	<u>29,550</u>
Total	<u>\$ 79,365</u>	<u>128,217</u>

(9) **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 \$12,589 and \$11,946 during the years ended December 31, 2016 and 2015, respectively.

(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 made library support payments totaling \$921,308 and \$826,413 during the years ended December 31, 2016 and 2015, respectively.

(11) **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 temporarily restricted funds for use in support of Hennepin County Library. The local friends funds totaled \$147,703 and \$135,877 for the years ended December 31, 2016 and 2015, respectively, and are included in temporarily restricted net assets.

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(12) **FUTURE FUNDING**

The Board of Directors of Friends of HCL intends to provide \$1,000,000 in support of the Hennepin County Library for 2017 to be used for the Library's priorities of Youth programs, Readers of All Ages and Underserved programs.