

HARTFORD PUBLIC LIBRARY

FINANCIAL STATEMENTS

JUNE 30, 2012

HARTFORD PUBLIC LIBRARY

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Independent Auditors' Report

To the Board of Directors
Hartford Public Library
Hartford, Connecticut

We have audited the accompanying statement of financial position of Hartford Public Library (the Library) as of June 30, 2012 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Library's management. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hartford Public Library as of June 30, 2012 and the changes in its net assets and its cash flows for year then ended, in conformity with accounting principles generally accepted in the United States of America.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
October 15, 2013

**HARTFORD PUBLIC LIBRARY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012**

ASSETS

Cash	\$ 185,526
Investments	14,434,776
Accounts receivable	185,759
Prepaid expenses	133,692
Property and equipment, net	<u>7,637,049</u>
Total Assets	\$ <u>22,576,802</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	\$ <u>1,675</u>
Net Assets	
Unrestricted	17,917,234
Temporarily restricted	581,621
Permanently restricted	<u>4,076,272</u>
Total net assets	<u>22,575,127</u>
Total Liabilities and Net Assets	\$ <u>22,576,802</u>

The accompanying notes are an integral part of the financial statements

**HARTFORD PUBLIC LIBRARY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue				
City appropriation	\$ 7,915,000	\$ -	\$ -	\$ 7,915,000
Donated services and goods	6,947,035	-	-	6,947,035
Grants	411,343	-	-	411,343
Investment income	145,095	54,405	-	199,500
Special events	332,834	-	-	332,834
Contributions	34,138	384,913	-	419,051
Service fees	101,644	-	-	101,644
Other revenue	82,035	-	-	82,035
Net realized and unrealized losses on investments	(1,058,172)	(54,405)	-	(1,112,577)
Net assets released from restrictions	335,541	(335,541)	-	-
Total revenue	<u>15,246,493</u>	<u>49,372</u>	<u>-</u>	<u>15,295,865</u>
Expenses				
Program	7,769,497	-	-	7,769,497
Management and general	1,339,246	-	-	1,339,246
Fundraising	140,079	-	-	140,079
Total expenses	<u>9,248,822</u>	<u>-</u>	<u>-</u>	<u>9,248,822</u>
Increase in Net Assets	5,997,671	49,372	-	6,047,043
Net Assets - Beginning of Year	<u>11,919,563</u>	<u>532,249</u>	<u>4,076,272</u>	<u>16,528,084</u>
Net Assets - End of Year	<u>\$ 17,917,234</u>	<u>\$ 581,621</u>	<u>\$ 4,076,272</u>	<u>\$ 22,575,127</u>

The accompanying notes are an integral part of the financial statements

**HARTFORD PUBLIC LIBRARY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012**

Cash Flows from Operating Activities	\$ 6,047,043
Increase in net assets	
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Net realized and unrealized loss on investments	1,112,577
Depreciation	399,943
Donated property and equipment	(6,864,277)
Increase in operating assets:	
Accounts receivable	(185,759)
Prepaid expenses	(133,692)
Increase in operating liabilities:	
Accounts payable and accrued expenses	697
Net cash provided by operating activities	<u>376,532</u>
 Cash Flows from Investing Activities	
Purchases of investments	(342,574)
Proceeds from sale of investments	675,477
Purchases of property and equipment	(881,052)
Net cash used in investing activities	<u>(548,149)</u>
 Net Decrease in Cash	(171,617)
 Cash - Beginning of Year	<u>357,143</u>
 Cash - End of Year	<u>\$ 185,526</u>

The accompanying notes are an integral part of the financial statements

**HARTFORD PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities - Hartford Public Library (the Library) was incorporated in 1935 as a not-for-profit organization with the primary mission to promote and support literacy and learning, to provide free and open access to information and ideas, and to help people participate in our democratic society. The Library offers an extensive variety of programs and services for multiple age groups that target a wide spectrum of needs and interests. Major programs and services provided are library services, youth services, job and career center services, multicultural programs, and civic engagement programs. The Library's primary source of funding comes from an annual appropriation from the City of Hartford (the City).

Basis of Accounting and Presentation - The financial statements of the Library have been prepared in accordance with accounting principles generally accepted in the United States of America. Accordingly, the accounts of the Library are reported in the following net asset categories:

Unrestricted Net Assets - Unrestricted net assets represent available resources other than donor-restricted contributions. These resources may be expended at the discretion of the Board of Directors.

Temporarily Restricted Net Assets - Temporarily restricted net assets represent contributions that are restricted by the donor as to purpose or time of expenditure and also includes accumulated investment income and gains on donor-restricted endowment assets that have not been appropriated for expenditure.

Permanently Restricted Net Assets - Permanently restricted net assets represent resources that have donor-imposed restrictions that require that the principal be maintained in perpetuity but permit the Library to expend the income earned thereon.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts and disclosures in the financial statements. Actual results could differ from these estimates. Significant estimates include those used in valuing alternative investments.

Cash - The Library maintains deposits in financial institutions that may, at times, exceed federal depository insurance limits. Management believes that the Library's deposits are not subject to significant credit risk.

Investment Valuation and Income Recognition - Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 2 for a discussion of fair value measurements.

**HARTFORD PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Purchases and sales of securities are recorded on the trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net realized and unrealized losses on investments includes the Library's gains and losses on investments bought and sold as well as held during the year. Realized and unrealized gains and losses and investment income on donor-restricted endowment assets are classified as increases or decreases in temporarily restricted net assets until appropriated for expenditure.

Property and Equipment - Property and equipment acquisitions and improvements thereon that individually exceed \$500 are capitalized at cost and depreciated on a straight-line basis over their estimated useful lives. Leasehold improvements are amortized over the life of the improvement or the remaining lease term, whichever is shorter. Repairs and maintenance are charged to expense as incurred.

Collections - In accordance with accounting principles generally accepted in the United States of America (GAAP), the Library does not capitalize donated works of art or recognize them as revenues or gains. GAAP provides that such donations need not be recognized if they are added to collections that are held for public examination, education or research in the furtherance of public service rather than financial gain; are protected, kept unencumbered, cared for and preserved; and are subject to a policy that requires the proceeds from sales of collection items to be used to acquire other collection items.

Contributions - Unconditional contributions are recognized when pledged or received, as applicable, and are considered to be available for unrestricted use unless specifically restricted by the donor. The Library reports nongovernmental contributions and grants of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit their use. When a donor 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. Contributions received whose restrictions are met in the same period are presented with unrestricted net assets. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Donated Services and Goods - The Library recognizes donated services if they enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Donated goods and services related to the Library's special events totaled \$47,200 and \$35,558, respectively, at June 30, 2012. These amounts are included in donated services and goods and fundraising expenses on the statement of activities. The Library also received donated property and equipment totaling \$6,864,277 for the year ended June 30, 2012. These amounts are capitalized and included in property and equipment on the statement of financial position and donated services and goods on the statement of activities.

**HARTFORD PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants - Other than certain awards to fund capital expenditures, governmental grants are generally considered to be exchange transactions rather than contributions. Revenue from cost-reimbursement grants is recognized to the extent of costs incurred. Revenue from performance-based grants is recognized to the extent of performance achieved. Grant receipts in excess of revenue recognized are presented as deferred revenue.

Functional Allocation of Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Income Taxes - The Library is exempt from federal and state income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The Library's informational returns for the years ended June 30, 2009 through 2012 are subject to examination by the Internal Revenue Service and the State of Connecticut.

Subsequent Events - In preparing these financial statements, management has evaluated subsequent events through October 15, 2013, which represents the date the financial statements were available to be issued.

NOTE 2 - FAIR VALUE MEASUREMENTS

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Library has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset.

HARTFORD PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. When, as a practical expedient, an investment is measured at fair value on the basis of net asset value, its classification as Level 2 or 3 will be impacted by the ability to redeem the investment at net asset value at the measurement date. If there is uncertainty or the inability to redeem an investment at net asset value in the near term subsequent to the measurement date, the investment is categorized as Level 3.

The following is a description of the valuation methodologies used for assets measured at fair value:

Money Market Funds - Money market funds are valued at the quoted net asset value of shares held by the Library at year end.

Equities - Certain equities are valued at the closing price reported in the active market in which the individual securities are traded. Other equities are valued using net asset values as determined by the investment manager of the fund. This net asset value is based on the fair value of the underlying assets and liabilities of the related fund at the measurement date.

Fixed Income - Fixed income is valued at the closing price reported in the active market in which the individual securities are traded.

Alternative Investments - Interests in alternative investments are valued using net asset values as determined by the investment manager of the fund. This net asset value is based on the fair value of the underlying assets and liabilities of the related fund at the measurement date.

There have been no changes in the methodologies used at June 30, 2012.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Library believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**HARTFORD PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

The following table sets forth by level, within the fair value hierarchy, the Library's assets at fair value as of June 30, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market	\$ 208,664	\$ -	\$ -	\$ 208,664
Equities:				
U.S. mid cap	34,029	-	-	34,029
U.S. small cap	27,500	4,474,634	-	4,502,134
International developed	4,868,705	-	-	4,868,705
Other	180,715	-	-	180,715
Fixed income	213,005	-	-	213,005
Alternative investments	-	4,427,524	-	4,427,524
Total Assets at Fair Value	\$ 5,532,618	\$ 8,902,158	\$ -	\$ 14,434,776

There were no transfers between levels of investments during the year ended June 30, 2012.

Additional information regarding investments that report fair value based on net asset value per share or unit as of June 30, 2012 is as follows:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>	<u>Liquidity or Other Restrictions</u>
U.S. small cap (a)	\$ 4,474,634	\$ -	Daily	None	None
Alternative investments (b)	4,427,524	-	Monthly	30 days	None

The investment strategies of these investments are as follows:

- (a) This investment class typically involves event-driven, stressed and distressed credit, and spread-based arbitrage investments. The strategies tend to be both flexible and opportunistic. They incorporate differentiated drivers of return compared to traditional investment strategies, and, as a result, they are expected to produce returns that exhibit relatively low correlation to the broad market indices over longer time horizons. Over time, the investments should generate equity-like returns with lower volatility than equity markets.
- (b) This investment class typically has investments in long and short global equities. The fund is managed on a total return basis, and, over time, the investment objective is to provide return that is consistent with MSCI All Country World Index and Barclays Capital Aggregate Index.

**HARTFORD PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - PROPERTY AND EQUIPMENT

The following is a summary of property and equipment as of June 30, 2012:

Buildings improvements	\$ 6,672,624
Furniture and fixtures	655,979
Library material	495,657
Computers and equipment	197,717
Leasehold improvements	<u>15,015</u>
	8,036,992
Less accumulated depreciation and amortization	<u>(399,943)</u>
Property and Equipment, Net	<u>\$ 7,637,049</u>

Depreciation expense totaled \$399,943 for the year ended June 30, 2012.

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Net assets were released from restrictions by incurring expenses satisfying the following purpose restrictions for the year ended June 30, 2012:

Capital improvements	\$ 226,012
Donor stipulations for various programs	<u>109,529</u>
	<u>\$ 335,541</u>

Temporarily restricted net assets are available for the following purposes as of June 30, 2012:

Donor stipulations for various programs	\$ 387,469
Capital improvements	<u>194,152</u>
	<u>\$ 581,621</u>

NOTE 5 - ENDOWMENT

The Library's endowment consists of individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowment. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

**HARTFORD PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - ENDOWMENT (Continued)

Interpretation of Relevant Law - The Board of Directors of the Library has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act (CTUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Library classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Library in a manner consistent with the standard of prudence prescribed by CTUPMIFA. In accordance with CTUPMIFA, the Library considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Library and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Library
- The investment policies of the Library

Changes in endowment net assets for the year ended June 30, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - beginning of year	\$ 11,402,803	\$ -	\$ 4,076,272	\$ 15,479,075
Investment return:				
Investment income	108,353	54,405	-	162,758
Investment losses	<u>(1,043,208)</u>	<u>(54,405)</u>	<u>-</u>	<u>(1,097,613)</u>
Total investment return	<u>(934,855)</u>	<u>-</u>	<u>-</u>	<u>(934,855)</u>
Appropriation of endowment assets for expenditure	<u>(303,596)</u>	<u>-</u>	<u>-</u>	<u>(303,596)</u>
Endowment Net Assets - End of Year	<u>\$ 10,164,352</u>	<u>\$ -</u>	<u>\$ 4,076,272</u>	<u>\$ 14,240,624</u>

**HARTFORD PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - ENDOWMENT (Continued)

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or CTUPMIFA requires the Library to maintain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$669,122 as of June 30, 2012. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

Return Objectives and Risk Parameters - The Library has adopted investment and spending policies for endowment assets that attempt to provide a revenue stream while also maintaining or increasing the inflation-adjusted value of the endowment to maintain intergenerational equity for funding of ongoing operations, special initiatives and capital projects in support of the Library.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Library relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Library targets a diversified asset allocation that places a greater emphasis on equity-based and fixed income investments to achieve its long-term return objectives within prudent risk constraints. The Library seeks to achieve investment results over the long-term that exceed the target blended benchmark by 1% per annum and exceed the inflation plus the spending policy per annum.

Spending Policy - The Library has adopted a policy to support the Library and to preserve the value of the investment portfolio over time. Specifically, 4% of the average of the fair value of certain investments for the previous 12 quarters is appropriated to support the Library.

NOTE 6 - RELATED-PARTY TRANSACTIONS

The Library is a component fund of the City and it receives an annual appropriation from the City to support general operations and program services. The appropriation received for the year ended June 30, 2012 was \$7,915,000.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

The Library participated in a number of federal- and state-assisted grant programs. The use of grants in programs is subject to future review by the grantors. Such reviews may result in liabilities to grantors. The Library is not aware of any such liabilities at June 30, 2012.

**HARTFORD PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - OPERATING LEASES

The Library leases space for library branches with various terms through June 30, 2016. The Library also leases office equipment under noncancelable operating leases with terms of more than one year.

Future minimum lease payments under operating leases that have minimum remaining terms in excess of one year are as follows:

Year Ending June 30

2013	\$	68,936
2014		71,336
2015		72,948
2016		<u>52,989</u>
Total Minimum Lease Payments	\$	<u><u>266,209</u></u>