

**Friends of the Library,  
Montgomery County, Maryland, Inc.  
Financial Statements  
June 30, 2020 and 2019**



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## **INDEPENDENT AUDITORS' REPORT**

Board of Trustees  
Friends of the Library, Montgomery County, Maryland, Inc.  
Rockville, MD

We have audited the accompanying financial statements of Friends of the Library, Montgomery County, Maryland, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, 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 auditors consider 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.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Friends of the Library, Montgomery County, Maryland, Inc. as of June 30, 2020 and 2019, 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.

### **Correction of Error**

As discussed in Note 13 to the financial statements, certain errors resulting in an understatement of amounts previously reported as inventory, donated goods for resale and cost of donated goods sold for the years ended June 30, 2019 and prior, were determined during the current year. Accordingly, amounts reported have been restated in the 2019 financial statements and adjustments have been made to net assets without donor restrictions as of June 30, 2018 to correct the errors. Our opinion is not modified with respect to that matter.

*Sygnus, Lember + Co., LLP*

June 2, 2021

**FRIENDS OF THE LIBRARY, MONTGOMERY COUNTY, MARYLAND, INC.**

**STATEMENTS OF FINANCIAL POSITION**

	JUNE 30,	
	2020	2019 (AS RESTATED)
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 191,532	\$ 395,496
Accounts receivable	28,719	26,237
Certificate of deposits	332,442	325,852
Inventory	575,958	737,070
Prepaid expenses	5,092	6,444
<b>TOTAL CURRENT ASSETS</b>	<u>\$ 1,133,743</u>	<u>\$ 1,491,099</u>
<b>OTHER ASSETS:</b>		
Cash and cash equivalents - memorial fund	\$ 25,426	\$ 25,401
Cash and cash equivalents - fund for the future	4,367	4,367
Cash and cash equivalents - amounts held for chapters	46,663	39,635
Property and equipment, net	17,250	28,351
Deposits	10,480	9,750
<b>TOTAL OTHER ASSETS</b>	<u>\$ 104,186</u>	<u>\$ 107,504</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 1,237,929</u></u>	<u><u>\$ 1,598,603</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 16,204	\$ 16,396
Accrued rent and payroll	60,909	68,582
MCPL awards payable	179,675	272,970
Deferred revenue	500	8,229
Note payable, current portion	55,969	-
<b>TOTAL CURRENT LIABILITIES</b>	<u>\$ 313,257</u>	<u>\$ 366,177</u>
<b>NONCURRENT LIABILITIES:</b>		
Deferred rent benefits	\$ 77,706	\$ 53,200
Due to chapters	46,663	39,635
Note payable, net of current portion	71,946	-
<b>TOTAL CURRENT LIABILITIES</b>	<u>\$ 196,315</u>	<u>\$ 92,835</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 509,572</u>	<u>\$ 459,012</u>
<b>NET ASSETS:</b>		
Without donor restrictions	\$ 585,086	\$ 1,005,751
With donor restrictions	143,271	133,840
<b>TOTAL NET ASSETS</b>	<u>\$ 728,357</u>	<u>\$ 1,139,591</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 1,237,929</u></u>	<u><u>\$ 1,598,603</u></u>

The accompanying notes are an integral part of these financial statements.

FRIENDS OF THE LIBRARY, MONTGOMERY COUNTY, MARYLAND, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30,

	2020			2019 (AS RESTATED)		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE AND SUPPORT:</b>						
Book sales	\$ 816,158	\$ -	\$ 816,158	\$ 1,115,808	\$ -	\$ 1,115,808
Contributions	55,619	22,898	78,517	54,005	16,912	70,917
Donated goods for resale	1,334,954	-	1,334,954	1,783,070	-	1,783,070
Grants	80,171	-	80,171	73,596	-	73,596
Membership dues	23,160	-	23,160	18,161	-	18,161
Programs and events	2,371	-	2,371	3,955	-	3,955
Annual event:						
Gross revenue and donations	39,227	-	39,227	34,541	-	34,541
Less, direct expenses	(10,858)	-	(10,858)	(11,769)	-	(11,769)
Interest and other income	6,776	27	6,803	2,185	26	2,211
Donated facilities and services	12,206	-	12,206	13,990	-	13,990
Net assets released from restrictions	13,494	(13,494)	-	33,669	(33,669)	-
<b>TOTAL REVENUE AND SUPPORT</b>	<b>\$ 2,373,278</b>	<b>\$ 9,431</b>	<b>\$ 2,382,709</b>	<b>\$ 3,121,211</b>	<b>\$ (16,731)</b>	<b>\$ 3,104,480</b>
<b>EXPENSES:</b>						
Program services	\$ 2,382,311	\$ -	\$ 2,382,311	\$ 2,766,356	\$ -	\$ 2,766,356
Supporting services:						
Management and general	\$ 378,556	\$ -	\$ 378,556	\$ 306,870	\$ -	\$ 306,870
Fundraising	\$ 33,076	\$ -	\$ 33,076	\$ 50,278	\$ -	\$ 50,278
Total supporting services	\$ 411,632	\$ -	\$ 411,632	\$ 357,148	\$ -	\$ 357,148
<b>TOTAL EXPENSES</b>	<b>\$ 2,793,943</b>	<b>\$ -</b>	<b>\$ 2,793,943</b>	<b>\$ 3,123,504</b>	<b>\$ -</b>	<b>\$ 3,123,504</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ (420,665)</b>	<b>\$ 9,431</b>	<b>\$ (411,234)</b>	<b>\$ (2,293)</b>	<b>\$ (16,731)</b>	<b>\$ (19,024)</b>
<b>NET ASSETS, BEGINNING OF YEAR AS PREVIOUSLY REPORTED</b>	<b>1,005,751</b>	<b>133,840</b>	<b>1,139,591</b>	<b>233,110</b>	<b>150,571</b>	<b>383,681</b>
<b>PRIOR PERIOD ADJUSTMENT</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>774,934</b>	<b>-</b>	<b>774,934</b>
<b>NET ASSETS, BEGINNING OF YEAR AS RESTATED</b>	<b>\$ 1,005,751</b>	<b>\$ 133,840</b>	<b>\$ 1,139,591</b>	<b>\$ 1,008,044</b>	<b>\$ 150,571</b>	<b>\$ 1,158,615</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 585,086</b>	<b>\$ 143,271</b>	<b>\$ 728,357</b>	<b>\$ 1,005,751</b>	<b>\$ 133,840</b>	<b>\$ 1,139,591</b>

The accompanying notes are an integral part of these financial statements.

FRIENDS OF THE LIBRARY, MONTGOMERY COUNTY, MARYLAND, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

	2020				2019 (AS RESTATED)			
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
Personnel costs:								
Salaries and wages	\$ 391,197	\$ 130,342	\$ 18,122	\$ 539,661	\$ 371,925	\$ 110,811	\$ 27,881	\$ 510,617
Fringe benefits	29,019	26,539	4,101	59,659	15,844	26,152	4,457	46,453
Payroll taxes	29,386	9,791	1,361	40,538	29,119	9,146	818	39,083
Total personnel costs	\$ 449,602	\$ 166,672	\$ 23,584	\$ 639,858	\$ 416,888	\$ 146,109	\$ 33,156	\$ 596,153
Advertising	2,020	358	-	2,378	2,100	2,851	95	5,046
Bank and credit card fees	19,263	3,990	588	23,841	24,587	4,623	836	30,046
Cost of donated goods sold	1,496,066	-	-	1,496,066	1,820,934	-	-	1,820,934
Depreciation and amortization	1,367	10,705	-	12,072	2,867	5,502	-	8,369
Donated facilities	-	10,800	-	10,800	-	10,800	-	10,800
Donated services	-	-	1,406	1,406	825	-	2,365	3,190
Dues, fees, and subscriptions	100	2,173	936	3,209	100	1,589	1,027	2,716
Fundraising event expenses	-	-	10,858	10,858	-	-	11,769	11,769
Grants to MCPL	45,103	-	-	45,103	138,663	-	-	138,663
Insurance	4,066	18,761	-	22,827	-	11,430	-	11,430
Meetings	878	5,565	-	6,443	3,570	3,708	-	7,278
Parking and travel	1,927	175	50	2,152	25	208	-	233
Postage	4,617	3,241	789	8,647	4,080	4,034	636	8,750
Printing	10,265	1,791	2,511	14,567	11,732	2,905	5,105	19,742
Professional development	-	350	39	389	-	6,041	166	6,207
Professional fees	10,907	101,003	2,360	114,270	9,935	56,348	6,819	73,102
Public program costs	36,218	40	-	36,258	52,907	1,534	-	54,441
Rent	231,270	-	-	231,270	207,023	-	-	207,023
Repairs and maintenance	6,707	-	-	6,707	8,414	1,558	-	9,972
Supplies	15,989	5,177	-	21,166	7,836	5,643	65	13,544
Truck rental and gas	21,826	-	-	21,826	30,242	-	-	30,242
Utilities	22,693	1,103	-	23,796	21,491	660	-	22,151
Website expenses	1,427	46,652	813	48,892	2,137	41,327	8	43,472
<b>TOTAL EXPENSES</b>	<b>\$ 2,382,311</b>	<b>\$ 378,556</b>	<b>\$ 43,934</b>	<b>\$ 2,804,801</b>	<b>\$ 2,766,356</b>	<b>\$ 306,870</b>	<b>\$ 62,047</b>	<b>\$ 3,135,273</b>
Less expenses included with revenues on the statements of activities:								
Fundraising event expenses	-	-	(10,858)	(10,858)	-	-	(11,769)	(11,769)
<b>TOTAL EXPENSES BY FUNCTION</b>	<b>\$ 2,382,311</b>	<b>\$ 378,556</b>	<b>\$ 33,076</b>	<b>\$ 2,793,943</b>	<b>\$ 2,766,356</b>	<b>\$ 306,870</b>	<b>\$ 50,278</b>	<b>\$ 3,123,504</b>
Percent of total expenses	85.2%	13.5%	1.2%	100.0%	88.6%	9.8%	1.6%	100.0%

The accompanying notes are an integral part of these financial statements.

**FRIENDS OF THE LIBRARY, MONTGOMERY COUNTY, MARYLAND, INC.**

**STATEMENTS OF CASH FLOWS**

	FOR THE YEARS ENDED	
	JUNE 30,	
	2020	2019
	<u>2020</u>	<u>(AS RESTATED)</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (411,234)	\$ (19,024)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	12,072	8,369
Donated goods for resale	(1,334,954)	(1,783,070)
Cost of donated goods sold	1,496,066	1,820,934
Decrease (increase) in assets:		
Accounts receivable	(2,482)	24,106
Prepaid expenses	1,352	(763)
Deposits	(730)	-
Increase (decrease) in liabilities:		
Accounts payable	(192)	2,096
Accrued rent and payroll	(7,673)	(1,987)
MCPL awards payable	(93,295)	71,711
Deferred revenue	(7,729)	16
Due to chapters	7,028	(26,679)
Deferred rent benefits	24,506	6,931
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ (317,265)</u>	<u>\$ 102,640</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	\$ (971)	\$ (32,788)
Reinvested interest	(6,590)	(2,113)
Purchase of certificate of deposit	-	(100,000)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>\$ (7,561)</u>	<u>\$ (134,901)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from note payable	\$ 127,915	\$ -
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>\$ 127,915</u>	<u>\$ -</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>\$ (196,911)</u>	<u>\$ (32,261)</u>
<b>CASH AND CASH EQUIVALENTS:</b>		
<b>BEGINNING OF YEAR</b>	<u>464,899</u>	<u>497,160</u>
<b>END OF YEAR</b>	<u>\$ 267,988</u>	<u>\$ 464,899</u>
<b>COMPRISED OF:</b>		
Cash and cash equivalents	\$ 191,532	\$ 395,496
Cash and cash equivalents - memorial fund	25,426	25,401
Cash and cash equivalents - fund for the future	4,367	4,367
Cash and cash equivalents - amounts held for chapters	46,663	39,635
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<u>\$ 267,988</u>	<u>\$ 464,899</u>

The accompanying notes are an integral part of these financial statements.



**FRIENDS OF THE LIBRARY, MONTGOMERY COUNTY, MARYLAND, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020 AND 2019**

Note 1. **Organization** - Friends of the Library, Montgomery County, Maryland, Inc. (FOLMC) was organized in 1983 as a non-profit corporation to support public libraries in Montgomery County, Maryland by assisting the libraries with their public information activities, by working with the county and local library boards and committees, and by creating library volunteer opportunities. FOLMC also encourages gifts, memorials, and endowments, sponsors community events and activities, and supports fundraising efforts for the benefit of library service.

Note 2. **Summary of Significant Accounting Policies**

**Accounting Method** - FOLMC uses the accrual basis of accounting, whereby revenue is recorded when earned and expenses are recorded when incurred.

**Basis of Presentation** - Net assets, revenue, gains, and losses are classified based on the existence or absence of contributions with donor-imposed restrictions. Accordingly, net assets are classified and reported as follows:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of FOLMC, management and the board of directors.

Net assets with donor restrictions - Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of FOLMC, or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

**Cash and Cash Equivalents** - For purposes of reporting cash flows, FOLMC considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash related to the endowment and held for the chapters is included in other assets.

**Accounts Receivable** - Accounts receivable are stated at unpaid balances estimated by management to be the net realizable value and are due under normal trade terms requiring payment within 30 days of the invoice date. FOLMC provides for losses on accounts receivable using the allowance method, whereby receivables are carried at their original amount less an estimate for doubtful receivables based on an annual review of all outstanding amounts. It is FOLMC's policy to charge off uncollectible receivables when management determines the receivables will not be collected. At June 30, 2020 and 2019, there is no allowance for uncollectible accounts, and all amounts are deemed collectible in one year.

**FRIENDS OF THE LIBRARY, MONTGOMERY COUNTY, MARYLAND, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020 AND 2019**

Note 2. **Summary of Significant Accounting Policies** (Continued)

**Inventory** - FOLMC accepts contributions of books, magazines, movies, video games, comics, board games, puzzles, and music (vinyl, CDs and cassette tapes) for resale to customers in its stores or through a third party seller. These contributed goods are recorded at their estimated fair value based on subsequent sales and are reflected as inventory on the statements of financial position. FOLMC does not record inventory until donated goods are sorted to determine whether they will be offered for sale or discarded.

**Certificate of Deposits** - The certificate of deposit is recorded at fair value. Fair value is the equivalent of the original amount on deposit plus any accrued but unpaid interest. Interest income is recorded on the accrual basis when earned.

**Property and Equipment** - Property and equipment are stated at cost and consist of furniture, office equipment and leasehold improvements. FOLMC capitalizes all property and equipment with a useful life greater than one year and a cost basis of \$500 or more. Depreciation for furniture and office equipment is calculated over an estimated useful life of three to seven years on a straight-line basis. Depreciation of leasehold improvements is computed on a straight-line basis over the shorter of the lease term or the useful life of the improvement. When property and equipment is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts with any resulting gain or loss reflected in income. Repairs and maintenance are expensed when incurred.

**Note Payable** - FOLMC accounts for its payroll protection program loan using the debt model. The funds received are recorded as a loan liability. If certain circumstances are met and the loan is legally forgiven, FOLMC will record the loan forgiveness as a gain in the year forgiven.

**Revenue Recognition** - FOLMC recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. All contributions and grants are considered to be available without donor restrictions unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as support with donor restrictions that increases that net asset class. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as support without donor restrictions. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service. Membership dues are considered unconditional contributions. FOLMC recognizes revenue from sales of books at a point in time when it satisfies a performance obligation of transferring control over the

**FRIENDS OF THE LIBRARY, MONTGOMERY COUNTY, MARYLAND, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020 AND 2019**

Note 2. **Summary of Significant Accounting Policies** (Continued)

book to a customer. Online book sales are recorded based on contract details. Registration fees for events are considered exchange revenue and are recognized at a point in time when the performance obligation of the event occurs. Funds received in advance of the occurrence of an event are considered deferred revenue. All exchange revenue for FOLMC is recognized at a point in time. Interest and other income are recorded as revenue when earned.

**In-Kind Contributions** - Contributions in-kind, such as donated facilities, printed design services, and consulting, are recorded as contributions at their estimated fair value at the time goods or services are provided. Volunteer services are not recognized as they do not meet the definition of in-kind contributions under accounting principles generally accepted in the United States of America. Donated books are recorded as a contribution when donated based on estimated fair market values.

**Advertising Expenses** - FOLMC uses advertising to promote its programs among audiences it serves. Advertising costs are expensed as they are incurred.

**Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect specific amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Functional Allocation of Expenses** - The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities and functional expenses. Accordingly, certain expenses have been allocated among the programs and supporting services benefited and other costs are directly allocated to the specific activity benefited.

The only expenses that were indirectly allocated among the functional categories were personnel costs. The allocation method used to allocate these costs was time and effort.

**Income Taxes** - FOLMC is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, as amended, and classified as other than a private foundation. However, income from certain activities not directly related to FOLMC's tax-exempt purpose may be subject to taxation as unrelated business income. No provision for income taxes was required for the years ended June 30, 2020 and 2019.

**Accounting for Uncertain Tax Provisions** - FOLMC follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Management evaluated FOLMC's tax positions and concluded that FOLMC has taken no uncertain tax positions that require adjustment to the financial statements to comply with the

**FRIENDS OF THE LIBRARY, MONTGOMERY COUNTY, MARYLAND, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020 AND 2019**

Note 2. **Summary of Significant Accounting Policies** (Continued)

provisions of this guidance. For the years ended June 30, 2020 and 2019, no unrecognized tax provision or benefit exists.

**Change in Accounting Standard** - In June 2018, FASB issued ASU 2018-08, *Not-For-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves guidance for contributions received and contributions made, and provides guidance to organizations on how to account for certain exchange transactions. This change is preferable in that it clarifies whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities.

The change in accounting principle was adopted on a modified prospective basis, where the standard is only applied to incomplete agreements as of the effective date and new agreements entered into after the effective date. Therefore, under this basis, there is no cumulative-effect adjustment to opening net assets required. The effect of adopting the standard was an increase in membership revenue by \$8,200, for the year ended June 30, 2020.

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. This standard establishes a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. FOLMC has implemented Topic 606 on a modified retrospective basis, where the cumulative effect of the change is recognized on the date of initial application in the most current period presented in the financial statements. There was no impact to the financial statements as a result of implementing this standard.

Note 3. **Concentration of Credit Risk** - The Federal Deposit Insurance Corporation (FDIC) insures accounts up to \$250,000 at each institution. The accounts maintained by FOLMC may, at times, exceed federally insured limits. FOLMC seeks to maximize its interest income while limiting its exposure and reducing amounts in excess of the FDIC limit. Management does not consider this a significant concentration of credit risk.

Note 4. **Property and Equipment** - Property and equipment at June 30, 2020 and 2019 consists of the following:

	<u>2020</u>	<u>2019</u>
Furniture and office equipment	\$ 77,556	\$ 76,585
Leasehold improvements	31,733	31,733
Subtotals	\$ 109,289	\$ 108,318
Less, Accumulated depreciation and amortization	<u>(92,039)</u>	<u>(79,967)</u>
Property and equipment, net	<u>\$ 17,250</u>	<u>\$ 28,351</u>

**FRIENDS OF THE LIBRARY, MONTGOMERY COUNTY, MARYLAND, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020 AND 2019**

Note 5. **Note Payable** - On April 15, 2020, FOLMC received authorization from the Small Business Administration (SBA) for a \$127,915 Paycheck Protection Program loan to be used for payroll, rent, and utilities. The loan bears interest at 1.00% per annum and is for a period of 24 months from the funding date of the loan. Payments of principal and interest are deferred for the first 6 months. The loan or a portion of the loan may be forgiven if certain circumstances are met.

The estimated future maturities of notes payable for the years ending June 30, are as follows:

2021	\$ 55,969
2022	<u>71,946</u>
Total	<u>\$ 127,915</u>

Note 6. **Net Assets With Donor Restrictions** - Net assets with donor restrictions were composed of the following as of June 30:

	<u>2020</u>	<u>2019</u>
County library programs	\$ 48,722	\$ 52,115
Library resources	41,664	29,065
Children's resources	9,431	9,431
Accessible computers	4,915	4,915
Griffen/Moreland Scholarship	4,071	4,071
Library board	2,204	2,204
Vehicle	1,180	982
World language	585	585
Scholarship fund	556	556
MCDPL directors	78	78
Other	72	72
Endowments	<u>29,793</u>	<u>29,766</u>
Totals	<u>\$ 143,271</u>	<u>\$ 133,840</u>

Note 7. **Endowments** - The Farinholt/Edlow Memorial Fund was established with a bequest and the income generated from this fund is temporarily restricted based on the donor's intentions. The Endowment Fund for the Future was established during fiscal year 2002 and the income generated from this fund is without donor restrictions.

Original donor-restricted gift amounts required to be maintained in perpetuity at both June 30, 2020 and 2019 are comprised of the following items:

Farinholt/Edlow Memorial Fund	\$ 25,000
Endowment Fund for the Future	<u>4,367</u>
Total	<u>\$ 29,367</u>

**FRIENDS OF THE LIBRARY, MONTGOMERY COUNTY, MARYLAND, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020 AND 2019**

Note 7. **Endowments** (Continued)

**Interpretation of Relevant Law** - The state of Maryland has enacted the Uniform Prudential Management of Institutional Funds Act (UPMIFA), the provisions of which apply to funds existing on or established after the effective date of the act. The Board of Trustees of FOLMC has interpreted UPMIFA as requiring reasonable action to preserve 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, FOLMC classifies as net assets with donor restrictions (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with UPMIFA, FOLMC considers the following factors in making a determination to allocate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the funds, (2) the purposes the donor-restricted endowment funds, (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, and (7) the investment policies of FOLMC.

**Return Objectives and Risk Parameters** - FOLMC has adopted investment policies, approved by the Board, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in money market accounts, which are intended to result in a consistent rate of return that has sufficient liquidity, while growing the funds if possible. Investment risk is measured in terms of the total endowment fund; investment assets and allocations between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

**Spending Policy** - FOLMC has no formally established policy for the appropriation of endowment assets for expenditure. However, it has been the practice of FOLMC, under direction of the Board, that the interest and dividends on the funds are appropriated for spending when transferred or deposited into operating accounts.

**Funds With Deficiencies** - From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Board has interpreted the law governing endowments in Maryland to permit spending on underwater endowments in accordance with prudent measures required under law.

**FRIENDS OF THE LIBRARY, MONTGOMERY COUNTY, MARYLAND, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020 AND 2019**

Note 7. **Endowments** (Continued)

Endowment net assets composition by type of fund as of June 30, 2020 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ --	\$ 29,367	\$ 29,367
Accumulated investment gains	--	426	426
Totals	<u>\$ --</u>	<u>\$ 29,793</u>	<u>\$ 29,793</u>

Changes in endowment net assets for the fiscal year ended June 30, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance at June 30, 2019	\$ --	\$ 29,766	\$ 29,766
Interest and dividends, net of fees	--	27	27
Balance at June 30, 2020	<u>\$ --</u>	<u>\$ 29,793</u>	<u>\$ 29,793</u>

Endowment net assets composition by type of fund as of June 30, 2019 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ --	\$ 29,367	\$ 29,367
Accumulated investment gains	--	399	399
Totals	<u>\$ --</u>	<u>\$ 29,766</u>	<u>\$ 29,766</u>

Changes in endowment net assets for the fiscal year ended June 30, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance at June 30, 2018	\$ --	\$ 29,740	\$ 29,740
Interest and dividends, net of fees	--	26	26
Balance at June 30, 2019	<u>\$ --</u>	<u>\$ 29,766</u>	<u>\$ 29,766</u>

FRIENDS OF THE LIBRARY, MONTGOMERY COUNTY, MARYLAND, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 8. **Operating Leases** - On September 15, 2019, FOLMC extended the 2015 non-cancellable operating lease for its Rockville bookstore in order to coincide with the expiration date of a ware house lease that was entered into on the same day with the same landlord. The leased premises is 6,266 square feet of gross leasable area and 12,500 square feet of warehouse space. Upon commencement, the extended lease calls for a base monthly rent of \$10,576, subject to an annual increase of three percent, plus 11.13% of real estate taxes, assessments, and common area maintenance costs. The warehouse lease requires monthly minimum rental payments of \$2,083 that escalate annually by 3%, plus operating costs and real estate taxes. The extended lease expires on October 31, 2029 for both the premise and the warehouse, and has a one-time option to terminate the lease seven years from the commencement date. In addition, on July 1, 2014, the lessor provided a leasehold improvement incentive totaling \$19,363, which was reported as a deferred rent benefit in the statements of financial position and will be amortized over the remaining life of the amended lease. Amortization of deferred rent benefits are reported as an offset of rent expense in the statements of activities. For the years ended June 30, 2020, amortization of deferred rent benefits totaled \$1,053 per year.

FOLMC also rents space from Montgomery County for a bookstore at the Wheaton Library. Per the cancellable lease agreements, FOLMC pays 10% of its annual gross book sales as rent for this location.

FOLMC received donated office space located in the Rockville Memorial Library from Montgomery County for administrative offices. For both the years ended June 30, 2020 and 2019, the estimated value of the donated facilities was \$10,800.

FOLMC entered into a operating vehicle lease service agreement in October 2019 for fixed payments of \$1,050 for sixty months in order to use to transport books between the store and warehouse.

Future minimum lease payments under non-cancellable leases at June 30, 2020 are as follows:

<u>For the years ending June 30,</u>	
2021	\$ 167,927
2022	172,587
2023	177,387
2024	182,331
2025	177,972
Thereafter	819,898
Total	<u>\$ 1,698,102</u>



**FRIENDS OF THE LIBRARY, MONTGOMERY COUNTY, MARYLAND, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020 AND 2019**

Note 9. **Related Entities** - FOLMC has 17 affiliates that serve as local chapters of the Organization. FOLMC has no ownership or voting interests in these local chapters. However, FOLMC does provide technical and fund-raising assistance to the local chapters. As of June 30, 2020 and 2019, FOLMC held \$46,663 and \$39,635 of Chapter donations in a non-current liability account. These funds correlate with the cash and cash equivalents held for chapters account on the statement of financial position. There are no shared expenses between the entities as of June 30, 2020 and 2019.

Note 10. **Availability and Liquidity** - The following represents FOLMC's financial assets at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 267,988	\$ 464,899
Accounts receivable	28,719	26,237
Certificate of deposit	<u>332,442</u>	<u>325,852</u>
Total financial assets	<u>\$ 629,149</u>	<u>\$ 816,988</u>
 Amounts not available to be used within one year:		
Net assets with donor restrictions	\$ 143,271	\$ 133,840
Amounts held for chapters	46,663	39,635
Less net assets with purpose restrictions to be met in less than a year	<u>(29,964)</u>	<u>(32,629)</u>
Total amounts not available to be used within one year	<u>\$ 159,970</u>	<u>\$ 140,846</u>
 Financial assets available to meet general expenditures over the next year	 <u>\$ 469,179</u>	 <u>\$ 676,142</u>

FOLMC regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. FOLMC has various sources of liquidity at its disposal, including cash and cash equivalents, accounts receivable, and certificate of deposit.

For purposes of analyzing resources available to meet general expenditures over a one-year period, FOLMC considers all expenditures related to its ongoing activities as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next year, FOLMC operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

**FRIENDS OF THE LIBRARY, MONTGOMERY COUNTY, MARYLAND, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2020 AND 2019**

- Note 11. **Retirement Plan** - FOLMC sponsors a 403(b) defined contribution retirement plan for all full time employees. Employees are eligible to participate immediately upon employment. FOLMC does not make any matching contributions into the plan.
- Note 12. **Reclassifications** - Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.
- Note 13. **Prior Period Adjustment** - In 2020, accounting errors were determined, whereby donated inventory was not being recorded within FOLMC's financial statements. The understatement in inventory caused donated goods for resale and cost of donated goods sold to be understated. The June 30, 2018 net assets without donor restrictions have been increased by \$774,934. The June 30, 2019 inventory balance increased \$737,070. Donated goods for resale increased \$1,783,070 and cost of donated goods sold increased \$1,820,934 for the year ended June 30, 2019.
- Note 14. **Subsequent Events** - In preparing these financial statements, FOLMC has evaluated subsequent events and transactions for potential recognition or disclosure through June 2, 2021, which is the date the financial statements were available to be issued. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen. The Wheaton Book Store remains closed, the Rockville Book Store is operating at reduced hours, and program events have gone virtual. Financial impact could occur though such potential impact is unknown at this time.

On March 16, 2021, FOLMC received authorization from the Small Business Administration (SBA) for a \$119,435 Paycheck Protection Program loan. The loan bears interest at 1.00% per annum and matures on March 16, 2026. The loan may be forgiven if certain circumstances are met. Payments of principal and interest are deferred during the loan's deferral period. The deferral period is either sixteen months after the loan proceeds are disbursed; or 10 months after the last day of FOLMC's loan forgiveness covered period.