KELLOGG-HUBBARD LIBRARY

FINANCIAL STATEMENTS

JUNE 30, 2021

JMM & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

KELLOGG-HUBBARD LIBRARY

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KELLOGG-HUBBARD LIBRARY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Kellogg-Hubbard Library
Montpelier, Vermont

We have audited the accompanying financial statements of the Kellogg-Hubbard Library (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, 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.

Auditor's 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 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 auditor's 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.

JMM & ASSOCIATES ■ CERTIFIED PUBLIC ACCOUNTANTS

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kellogg-Hubbard Library as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

JMM & Associates

October 20, 2021

KELLOGG-HUBBARD LIBRARY

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2021

ASSETS

CURRENT ASSETS	
Cash - unrestricted	$ 263,219
Cash - restricted, current	139,789
Pledges receivable	22,019
Accounts receivable	500
Prepaid expenses	201
TOTAL CURRENT ASSETS	425,728
PROPERTY AND EQUIPMENT	
Building and improvements	3,057,134
Furniture and equipment	168,482
	3,225,616
Less accumulated depreciation	(1,510,879)
TOTAL PROPERTY AND EQUIPMENT	1,714,737
OTHER ASSETS	
Investments	5,838,839
Cash - restricted, long-term	302,520
TOTAL OTHER ASSETS	6,141,359
TOTAL ASSETS	$ 8,281,824

See accompanying notes.

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	$ 9,541
Accrued salaries and related liabilities	5,497
Accrued compensated absences	23,418
Deferred income	428
TOTAL CURRENT LIABILITIES	38,884
TOTAL LIABILITIES	38,884
NET ASSETS	
Net assets without donor restrictions:	
Undesignated	1,825,709
Board-designated	5,253,977
Total net assets without donor restrictions	7,079,686
Net assets with donor restrictions:	
Net assets with donor restrictions - purpose or time period	496,808
Net assets with donor restrictions - in perpetuity	666,446
Total net assets with donor restrictions	1,163,254
TOTAL NET ASSETS	8,242,940
TOTAL LIABILITIES AND NET ASSETS	$ 8,281,824

See accompanying notes.

KELLOGG-HUBBARD LIBRARY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2021

CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	
SUPPORT AND REVENUE	
Contributions	$ 263,909
Municipal support	496,505
COVID recovery grants	76,565
Program fees	11,961
Other income	6,728
Subtotal - support and revenue	855,668
Net assets released from restrictions - endowment earnings	233,697
Net assets released from restrictions - other	3,220
TOTAL SUPPORT AND REVENUE	1,092,585
EXPENSES	
Program services	734,143
Support services	
General and administrative	168,024
Fundraising	97,355
Subtotal - support services	265,379
TOTAL EXPENSES	999,522
OPERATING GAIN	93,063
OTHER INCOME	
Investment income	944,280
Net assets released from restrictions - capital campaign	191,589
TOTAL OTHER INCOME	1,135,869
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	1,228,932
BEGINNING NET ASSETS WITHOUT DONOR RESTRICTIONS	5,850,754
ENDING NET ASSETS WITHOUT DONOR RESTRICTIONS	$ 7,079,686

See accompanying notes.

KELLOGG-HUBBARD LIBRARY

STATEMENT OF ACTIVITIES (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2021

CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	
SUPPORT AND REVENUE	
Contributions	$ 18,622
Capital gifts	179,471
Endowment gifts	250
Investment income	194,792
Subtotal - support and revenue	393,135
Net assets released from restrictions - endowment earnings	(233,697)
Net assets released from restrictions - capital campaign	(191,589)
Net assets released from restrictions - other	(3,220)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	(35,371)
BEGINNING NET ASSETS WITH DONOR RESTRICTIONS	1,198,625
ENDING NET ASSETS WITH DONOR RESTRICTIONS	$ 1,163,254
TOTAL CHANGE IN NET ASSETS	$ 1,193,561

See accompanying notes.

KELLOGG-HUBBARD LIBRARY

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2021

	Program Services	General and Administrative	Fundraising	Total
Salaries	$ 358,010	$ 84,891	$ 59,566	$ 502,467
Employee benefits	60,385	11,384	10,292	82,061
Payroll taxes	29,925	6,497	4,998	41,420
Subtotal - personnel costs	448,320	102,772	74,856	625,948
Occupancy	110,164	25,722	7,805	143,691
Depreciation	75,214	15,052	3,751	94,017
Books and programs	60,095	-	-	60,095
Insurance	17,504	3,501	875	21,880
Information technology	11,264	1,582	2,354	15,200
Miscellaneous	3,965	6,248	3,196	13,409
Office expense	4,837	4,228	1,010	10,075
Professional services	-	7,441	375	7,816
Advertising	2,522	1,307	2,652	6,481
Conferences and meetings	-	119	468	587
Interest expense	258	52	13	323
TOTAL EXPENSES	$ 734,143	$ 168,024	$ 97,355	$ 999,522

See accompanying notes.

KELLOGG-HUBBARD LIBRARY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from grants and contributions	$ 855,601
Cash received from interest and dividends	94,633
Other operating receipts	21,269
Cash paid for personnel	(660,347)
Cash paid to suppliers for goods and services	(367,079)
NET CASH USED BY OPERATING ACTIVITIES	(55,923)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales of investments	1,244,036
Purchases of investments	(1,104,574)
Purchases of property and equipment	(142,926)
NET CASH USED BY INVESTING ACTIVITIES	(3,464)
CASH FLOWS FROM FINANCING ACTIVITIES	
Endowment gifts	250
Capital gifts	177,140
Principal payments on long-term debt	(21,320)
NET CASH PROVIDED BY FINANCING ACTIVITIES	156,070
INCREASE IN CASH	96,683
BEGINNING CASH AND RESTRICTED CASH	608,845
ENDING CASH AND RESTRICTED CASH	$ 705,528
REPORTED IN THE STATEMENT OF FINANCIAL POSITION AS:	
Cash - unrestricted	$ 263,219
Cash - restricted, current	139,789
Cash - restricted, long-term	302,520
	$ 705,528

See accompanying notes.

1) SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Summary of operations

The Kellogg-Hubbard Library (the Library or the Organization) is a nonprofit public library located in Montpelier, Vermont. The Library was formed in 1894 and serves the Central Vermont area. For over a century, the Kellogg-Hubbard Library has been at the heart of our communities: preserving yesterday, informing today and inspiring tomorrow. The Library's primary sources of revenue are user fees and fines, municipal support and private contributions.

Basis of accounting

The financial statements of the Kellogg-Hubbard Library have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Financial statement presentation

The Kellogg-Hubbard Library is required to report its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

Contributions

The Kellogg-Hubbard Library reports its contributions as increases in net assets with or without donor restrictions depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents include cash on hand, amounts on deposit in financial institutions and other short-term investments with original maturities of three months or less. Cash and cash equivalents are stated at cost, which approximates market value.

The Kellogg-Hubbard Library maintains all of its cash in Vermont banks. Amounts on deposit are restricted up to $250,000 per depositor per bank. The amount on deposit in excess of the applicable FDIC limit was approximately $468,000 as of June 30, 2021.

1) SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

The preparation of the financial statements in accordance with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that could affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income taxes

The Kellogg-Hubbard Library is a nonprofit organization under the Internal Revenue Code 501(c)(3), and is exempt from federal income taxes on income related to its exempt purpose as a public charity pursuant to Section 501(a) of the Code. The Library believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements.

Property and equipment

Property and equipment is stated at cost. Depreciation is calculated using the straight-line method over the useful life of each asset. The Library's policy is to capitalize all acquisitions with an initial value of $5,000 and life expectancy of at least three years. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as increases in net assets with donor restrictions. Absent donor stipulations regarding how long those donor stipulations must be maintained, the Kellogg-Hubbard Library reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. The Statement of Functional Expenses presents expenses by function and natural classification. Expenses directly attributable to a specific functional area are reported as expenses of those functional areas while indirect costs that benefit multiple functional areas have been allocated among the various functional areas. Indirect costs have been allocated to the various programs based on estimated time spent by each person or square footage.

Measure of operations

The Kellogg-Hubbard Library includes in its measure of operations all revenue and expenses that are an integral part of its programs and supporting activities. The measure of operations includes investment income equal to a defined spending rate, and excludes investment return in excess of the spending rate, net assets released from restrictions for capital purposes, gain or loss on sale or disposal of capital assets, and purchases and sales of collection items.

1) SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements

Generally accepted accounting principles for fair value measurements emphasize a market-based approach to fair value, and require disclosures about valuation techniques used in the preparation of financial statements. The framework establishes a hierarchy that prioritizes the inputs used in measuring fair value (with Level 1 given the highest priority and Level 3 the lowest):

- Level 1 inputs are quoted prices available in active markets.

- Level 2 inputs are other than quoted prices available in active markets which are "observable" as of the reporting date (such as published life expectancy tables used for valuing an annuity).

- Level 3 inputs use "significant unobservable inputs" and include net present value calculations of estimated future cash flows.

Revenue recognition

The Kellogg-Hubbard Library occasionally provides services to customers under contracts for special programs. A contract with a customer may create legal rights and obligations whether or not the contract is in writing. The rights and obligations under the contract may, in turn, give rise to contract assets and contract liabilities. There were no material contract assets or contract liabilities as of the beginning or end of fiscal year 2021.

Advertising

Advertising costs are expensed when incurred.

Accounts receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Library provides for losses on accounts receivables using the allowance method. The allowance method is based on experience, third-party contracts and other circumstances which may affect the ability of third parties to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with contractual terms. It is the Library's policy to write off uncollectible accounts receivable when management determines the receivable will not be collected.

Donated services

The Library receives various types of in-kind support including professional services and unskilled labor. Contributed professional services are recognized at fair value if the services rendered (a) create or enhance long-lived assets or (b) require specialized skills, and would typically need to be purchased if not provided by donation. No amounts have been recorded in the accompanying financial statements as there were no donated services that satisfied the criteria for recognition.

1) SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Collection items

The Library's physical collection consists primarily of books, media and a few miscellaneous art and historical items. The collection is maintained under the care of the library staff and is held for research, education and public exhibition in furtherance of public service, rather than financial gain. The Library's policy is to exclude either the cost or the value of its collections in the Statement of Financial Position, nor does it recognize gifts of collection items as revenue in the Statement of Activities. Since items acquired for the collection by purchase are not capitalized, the costs of these acquisitions are reported as decreases in net assets in the Statement of Activities.

Changes in accounting principles

Effective July 1, 2020, the Kellogg-Hubbard Library adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958), *Presentation of Financial Statements for Not-for-Profit Entities.* The ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return.

Effective July 1, 2020, the Kellogg-Hubbard Library also adopted ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended, as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue and, therefore, no changes to the previously-issued financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

Effective July 1, 2020, the Kellogg-Hubbard Library also adopted ASU 2016-18, *Statement of Cash Flows* (Topic 230), as amended. This ASU requires that a statement of cash flows explain the changes during the period in the total cash, cash equivalents and amounts generally described as restricted cash. The Organization has applied the provisions of ASU 2016-18 retrospectively to all periods presented with no effect on net assets.

Effective July 1, 2020, the Kellogg-Hubbard Library adopted the provisions of ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). This accounting standard is meant to help not-for-profit entities evaluate whether transactions should be accounted for as contributions or as exchange transactions and, if the transaction is identified as a contribution, whether it is conditional or unconditional. There was no material impact to the financial statements as a result of adoption, and no effect on net assets or previously-issued financial statements.

Effective July 1, 2020, the Kellogg-Hubbard Library also adopted ASU 2016-01, *Financial Instruments-Overall* (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities* and ASU 2018-13, *Fair Value Measurement* (Topic 820) *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. These ASUs modify or remove certain disclosure requirements that were previously required. There was no material impact to the financial statements as a result of adoption, and no effect on net assets or previously-issued financial statements.

1) SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Pending accounting standard

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases,* (Topic 842), which will replace the current guidance for leases found in FASB ASC 840. ASU 2016-02 will affect most not-for-profit entities for annual reporting periods beginning on or after December 15, 2020 (the Library's fiscal year ending June 30, 2022). ASU 2016-02 applies to both lessees and lessors, and will require lessees with operating leases to recognize a right-of-use asset and related lease liability for leases with terms of 12 months or more. Management has not yet determined the impact of this ASU on the Library's financial statements.

2) RESTRICTED CASH

The Library's restricted cash consisted of the following as of June 30, 2021:

Restricted for specific programs or period	$ 139,789
Restricted for capital acquisitions	302,520
	$ 442,309

Restricted cash is reported in the Statement of Financial Position as follows as of June 30, 2021:

Cash - restricted, current	$ 139,789
Cash - restricted, long-term	302,520
	$ 442,309

3) LIQUIDITY

The Library regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Library considers all expenditures related to its ongoing activities of library programs, as well as the conduct of services undertaken to support those activities, to be general expenditures. The Library has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities and a line of credit (see Note 7).

In addition to financial assets available to meet general expenditures over the next 12 months, the Library operates with a balanced budget, and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

3) LIQUIDITY (continued)

As of June 30, 2021, the following table shows the total financial assets held by Kellogg-Hubbard Library and the amounts of those financial assets that could readily be made available within one year of the date of the Statement of Financial Position to meet general expenditures:

Cash - unrestricted	$ 263,219
Cash - restricted, current	139,789
Cash - restricted, long-term	302,520
Pledges receivable	22,019
Accounts receivable	500
Investments	5,838,839
Total financial assets	6,566,886
Less amounts not available to meet general expenditures:	
Board-designated net assets	(5,253,977)
Net assets with donor restrictions	(1,163,254)
Financial assets available to meet general expenditures over the next 12 months	$ 149,655

4) PLEDGES RECEIVABLE

Pledges receivable consist of promises to give to support the Library's capital campaign. All amounts are expected to be collected in less than one year from the date of the Statement of Financial Position. Management has deemed all amounts to be fully collectible.

5) INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments consisted of the following at June 30, 2021:

Mutual fund investments measured using net asset value:	
Equity securities:	
Mid-market capitalization (a)	$ 191,336
Large-market capitalization (b)	1,390,919
	1,582,255
Fixed income securities:	
Investment grade or unrated (c)	159,741
	159,741
Total mutual funds	1,741,996
Subtotal (forward)	$ 1,741,996

5) INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

Subtotal (forwarded)	$ 1,741,996
Money market funds priced at $1 per share	99,416
Equity securities	2,021,793
Fixed income securities	1,975,634
	$ 5,838,839

The Library uses net asset value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, as a practical expedient to estimate the fair value of certain hedge funds, private equity funds and limited partnerships, which do not have readily determinable fair values. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy.

Investments consist of funds for which there are no unfunded commitments, which redemption value is computed daily, and for which there is no notification period required to redemption. Funds seek total return, current income and capital preservation. Further analysis of the categories of the investments and the corresponding investment strategy is as follows:

(a) Investments seeking long-term growth and investment return primarily through investing in mid-market capitalization corporations located in the United States.

(b) Investments seeking long-term growth and investment return primarily through investing in large-market capitalization corporations located in the United States.

(c) Investments seeking investment return and preservation of capital primarily through investing in investment grade fixed-income securities, or unrated securities, that are deemed to be of comparable quality.

The fair values of the Library's funds by investment class are as follows as of June 30, 2021:

	Fair Value	Cost	Unrealized Appreciation
Cash and money funds	$ 99,416	$ 99,416	$ -
Fixed income	1,975,634	1,944,247	31,387
Equities	2,021,793	890,573	1,131,220
Exchange traded and other funds	1,741,996	1,275,234	466,762
	$ 5,838,839	$ 4,209,470	$ 1,629,369

As described in Note 7, a portion of the Library's investments are maintained in a Pledged Asset Account which serves as collateral for the Library's line of credit. The balance in the account was approximately $524,000 as of June 30, 2021 which exceeded the $250,000 minimum balance requirement.

5) INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

Investment return for the year ended June 30, 2021 is summarized as follows:

Interest and dividends	$ 94,633
Net realized gain	596,539
Net unrealized gain	469,085
Investment fees	(21,185)
	$ 1,139,072

Investment return is reported on the Statement of Activities as follows:

Net assets without donor restrictions	$ 944,280
Net assets with donor restrictions	194,792
	$ 1,139,072

6) ENDOWMENT FUNDS

In August 2008, the Financial Accounting Standards Board issued FASB Staff Position "Endowments of Not-for-Profit Organizations Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds." The Staff Position provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The Staff Position also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA.

Interpretation of relevant law

The State of Vermont enacted UPMIFA effective May 5, 2009, the provisions of which apply to endowment funds existing or established after that date. The Library's Board of Trustees has determined that the Library's donor-restricted and board-designated endowment net assets meet the definition of endowment funds under UPMIFA.

The Board of Trustees of the Library has interpreted State of Vermont law 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 Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. There are no explicit donor stipulations that govern the Library's permanent endowment funds. The Organization considers the duration and preservation of the fund, the availability of other resources and the general investment policies of the Library when establishing the investment allocation of the fund.

6) ENDOWMENT FUNDS (continued)

Funds with deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level the donors or UPMIFA requires the Library to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported as net assets without donor restrictions. There were no such deficiencies as of June 30, 2021.

Return objectives and risk parameters

The endowment funds have the objective to support the Library and its mission over the long term; preserve the value and maintain long-term growth of the endowment, and provide a stable source of income to support the Library's operational needs.

Strategies employed for achieving objectives

The Kellogg-Hubbard Library has adopted investment policies for the endowment funds that attempt to serve as a key pillar in supporting the Library's long-term ability to effectively pursue its mission to promote services and programs which are charitable, literary, scientific, or educational.

Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities. The Library expects its endowment assets, over time, to produce an average rate of return of approximately 6% annually. Actual returns in any given year may vary from this amount.

Spending policy and how the investment objectives relate to spending policy

The Kellogg-Hubbard Library has a policy of appropriating for distribution each year not more than 5% of a trailing three-year average of the endowment's total asset value. The Library's policy is to withdraw unappropriated earnings on donor-restricted endowment funds first, and then earnings on board-designated endowment funds. If approved by the Trustees, distributions in excess of the 5% amount may be made when necessary to meet operational expenses consistent with the annual budget.

Endowment net asset composition

Endowment net asset composition as of June 30, 2021 was as follows

		Net Assets with Donor Restrictions		
	Without Restrictions	Un-appropriated Earnings	To be Held in Perpetuity	Total
Board-designated endowment funds	$ 5,033,279	$ -	$ -	$ 5,033,279
Donor-restricted endowment funds	-	139,114	666,446	805,560
	$ 5,033,279	$ 139,114	$ 666,446	$ 5,838,839

6) ENDOWMENT FUNDS (continued)

Changes in endowment net assets for the year ended June 30, 2021 were as follows:

	Without Restrictions	Net Assets with Donor Restrictions: Un-appropriated Earnings	Net Assets with Donor Restrictions: To be Held in Perpetuity	Total
Balance - July 1, 2020	$ 4,089,646	$ 178,019	$ 666,196	$ 4,933,861
Contributions	-	-	250	250
Investment returns, net	943,633	194,792	-	1,138,425
Endowment distribution	-	(233,697)	-	(233,697)
Balance - June 30, 2021	$ 5,033,279	$ 139,114	$ 666,446	$ 5,838,839

7) LINE OF CREDIT

The Kellogg-Hubbard Library has a $150,000 line of credit with the Vermont State Employees Credit Union dated July 2015. The loan bears interest at the Wall Street Journal "Prime Rate" (3.25% at June 30, 2021). There was no outstanding balance at June 30, 2021. The line of credit is secured by a Pledged Asset Account Assignment in the Library's investments and must carry a $0 balance for a 30-day period during the credit line's term. Any principal and interest outstanding are due at maturity in July 2022.

8) DISTRICT HEAT LIABILITY

On July 16, 2013, the Library signed an agreement with the City of Montpelier to participate in the City's district heat program. Under the agreement, the Library was responsible for paying costs for the external connections to the building as well as the interior equipment conversion. The total amount paid to the City of Montpelier and heating contractor was $115,931, of which the Library paid $5,931 in cash and borrowed $110,000 from Vermont State Employees Credit Union. Other lesser charges were paid as incurred.

During the period of the loan amortization, the City of Montpelier agreed to defer payments from the Library for the capacity charge (cost to be on the City's system). The Library pays for the actual energy usage on a monthly basis. The Library repaid the entire amount in full in fiscal year 2021.

9) LONG-TERM DEBT

As discussed in Note 8, in October 2014 the Library executed a loan agreement with Vermont State Employees Credit Union in the original amount of $110,000 to finance its contribution to the City of Montpelier district heat program. The loan required monthly payments of $1,503, including interest at 4%, was due to mature in 2023 and was collateralized by a separate account within the Library's investment portfolio. The Library paid off the remaining balance in fiscal year 2021.

10) RETIREMENT PLAN

The Kellogg-Hubbard Library contributes 5.5% of each employee's salary to a defined contribution retirement plan, once the employee has reached 90 days of service. Retirement expense was $28,075 for the year ended June 30, 2021.

11) NET ASSETS

The Library's Board of Trustees has designated a portion of net assets without donor restrictions for the following purposes as of June 30, 2021:

Endowment funds	$ 5,033,279
Cash flow reserve	95,000
Occupancy reserve	32,000
Reserve for future years	67,198
Reserve for technology & innovation	20,000
Reserve for audit costs	6,500
	$ 5,253,977

Net assets with donor restrictions consisted of the following at June 30, 2021:

Restricted by time or purpose:	
Give the Library a Lift capital campaign	$ 324,539
Audiobooks	10,797
Books	975
Photography books	1,508
Room upgrades	6,451
Collections	5,945
Summer performers	200
Interlibrary loans and large print books	978
Landscaping	43
Climate change programs	949
Program innovation	5,050
Technology	259
Unappropriated endowment earnings	139,114
Subtotal - restricted by time or purpose	496,808
Restricted in perpetuity	
Donor-restricted endowment funds	666,446
	$ 1,163,254

12) GLOBAL PANDEMIC

In March 2020, the world experienced a global pandemic, COVID-19 coronavirus, which dramatically decreased economic activity and resulted in significant declines in the financial markets in fiscal year 2020. While the financial markets have recovered in fiscal year 2021, as of the report date of these financial statements, it is not possible to determine the total effect of the economic slowdown and whether or not any of the increase is other than temporary as the pandemic continues into fiscal year 2022.

In accordance with applicable state executive orders, the Library limited access to its building during much of fiscal year 2021, and reopened to regular programming and access in May 2021.

The Organization did not apply for a loan under the U.S. Small Business Administration Paycheck Protection Program. It did receive other Federal and State COVID-relief grants.

13) SUBSEQUENT EVENTS

The Kellogg-Hubbard Library has evaluated events and transactions for potential recognition or disclosure through October 20, 2021, the date the financial statements were available to be issued.