

KING COUNTY LIBRARY SYSTEM FOUNDATION

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2021 AND 2020



KING COUNTY LIBRARY SYSTEM FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
King County Library System Foundation
Issaquah, Washington

Opinion

We have audited the accompanying financial statements of King County Library System Foundation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements (collectively 'the financial statements').

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of King County Library System Foundation as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of King County Library System Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about King County Library System Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 King County Library System Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about King County Library System Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Jacobson Jarvis & Co, PLLC

Jacobson Jarvis & Co, PLLC
Seattle, Washington
September 30, 2022

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 1,316,363	\$ 1,084,659
Investments	4,579,043	3,457,515
Promises to give, net	2,292,001	2,370,001
Other receivables	48,750	11,519
Other current assets	<u>18,689</u>	<u>43,006</u>
Total Current Assets	8,254,846	6,966,700
Beneficial Interest in Charitable Remainder Annuity Trust	399,628	300,420
Beneficial Interest in Charitable Lead Annuity Trust	131,539	209,761
Endowment Investments	<u>1,700,549</u>	<u>1,405,305</u>
Total Assets	<u>\$ 10,486,562</u>	<u>\$ 8,882,186</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 150,275	\$ 67,393
Programs payable	<u>48,578</u>	<u>190,526</u>
Total Liabilities	<u>198,853</u>	<u>257,919</u>
Net Assets		
Without donor restrictions	7,170,109	5,843,454
Without donor restrictions - board-designated	<u>1,200,000</u>	<u>1,100,000</u>
Total Net Assets Without Donor Restriction	8,370,109	6,943,454
With donor restrictions	<u>1,917,600</u>	<u>1,680,813</u>
Total Net Assets	<u>10,287,709</u>	<u>8,624,267</u>
	<u>\$ 10,486,562</u>	<u>\$ 8,882,186</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support, Revenue, and Other Support						
KCLS in-kind contributions	\$ 736,116		\$ 736,116	\$ 641,359		\$ 641,359
Other in-kind contributions	24,040		24,040	5,595		5,595
Other contributions	782,656	\$ 89,229	871,885	1,158,585	\$ 61,875	1,220,460
Special events revenue	543,759	-	543,759	392,711	-	392,711
Book sales	295,905		295,905	113,400		113,400
Investment income, net	79,851	29,362	109,213	26,598	17,464	44,062
Other revenues	3,816		3,816	7,702		7,702
Net assets released from purpose restrictions	79,465	(79,465)	-	30,103	(30,103)	-
Total Public Support, Revenue, and Other Support	<u>2,545,608</u>	<u>39,126</u>	<u>2,584,734</u>	<u>2,376,053</u>	<u>49,236</u>	<u>2,425,289</u>
Expenses						
Program services	1,216,160		1,216,160	986,418		986,418
Management and general	244,096		244,096	227,638		227,638
Fundraising	540,939		540,939	333,867		333,867
Total Expenses	<u>2,001,195</u>	<u>-</u>	<u>2,001,195</u>	<u>1,547,923</u>	<u>-</u>	<u>1,547,923</u>
Change in Net Assets Before Gains and Losses	<u>544,413</u>	<u>39,126</u>	<u>583,539</u>	<u>828,130</u>	<u>49,236</u>	<u>877,366</u>
Gains and Losses						
Valuation gain on promises to give	357,327	-	357,327	227,110	-	227,110
Net gain on investments	524,915	191,883	716,798	623,128	192,066	815,194
Change in value of charitable lead annuity trust	-	5,778	5,778	-	4,951	4,951
Total Gains and Losses	<u>882,242</u>	<u>197,661</u>	<u>1,079,903</u>	<u>850,238</u>	<u>197,017</u>	<u>1,047,255</u>
Total Change in Net Assets	<u>1,426,655</u>	<u>236,787</u>	<u>1,663,442</u>	<u>1,678,368</u>	<u>246,253</u>	<u>1,924,621</u>
Net Assets – beginning of year	<u>6,943,454</u>	<u>1,680,813</u>	<u>8,624,267</u>	<u>5,265,086</u>	<u>1,434,560</u>	<u>6,699,646</u>
Net Assets – end of year	<u>\$ 8,370,109</u>	<u>\$ 1,917,600</u>	<u>\$ 10,287,709</u>	<u>\$ 6,943,454</u>	<u>\$ 1,680,813</u>	<u>\$ 8,624,267</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021				2020			
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
Program expenses and materials	\$ 991,226	\$ -	\$ -	\$ 991,226	\$ 787,151	\$ -	\$ -	\$ 787,151
In-kind staff	204,189	161,954	265,604	631,747	153,820	124,769	208,968	487,557
Professional fees	-	1,000	114,633	115,633	-	5,600	48,301	53,901
In-kind office support	20,469	64,045	19,855	104,369	45,447	57,545	50,810	153,802
Special events	-	565	71,881	72,446	-	233	6,075	6,308
Miscellaneous	276	-	38,401	38,677	-	29,347	5,682	35,029
Program expenses – in-kind	-	-	24,010	24,010	-	-	5,595	5,595
Bank fees	-	16,532	-	16,532	-	8,682	5,677	14,359
Postage and printing	-	-	6,555	6,555	-	1,462	2,759	4,221
Total Expenses	<u>\$ 1,216,160</u>	<u>\$ 244,096</u>	<u>\$ 540,939</u>	<u>\$ 2,001,195</u>	<u>\$ 986,418</u>	<u>\$ 227,638</u>	<u>\$ 333,867</u>	<u>\$ 1,547,923</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities		
Cash received from donors	\$ 1,723,571	\$ 2,070,299
Cash received from book sales	258,674	125,910
Cash received from others	3,816	7,702
Cash received from interest	1,015	2,240
Cash paid to vendors	(795,210)	(666,666)
Cash paid to KCLS	(480,578)	(394,131)
Net Cash Provided by Operating Activities	<u>711,288</u>	<u>1,145,354</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	1,180,536	-
Purchases of investments	(1,744,120)	(743,052)
Net Cash Used by Investing Activities	<u>(563,584)</u>	<u>(743,052)</u>
Cash Flows Provided by Financing Activities		
Cash received from beneficial interest in charitable lead annuity trust	84,000	84,000
Change in Cash and Cash Equivalents	231,704	486,302
Cash and Cash Equivalents - beginning of year	<u>1,084,659</u>	<u>598,357</u>
Cash and Cash Equivalents - end of year	<u>\$ 1,316,363</u>	<u>\$ 1,084,659</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The mission of the King County Library System (KCLS or the Library) is to inspire the people of King County to succeed through ideas, interaction and information. The King County Library System Foundation (KCLS Foundation) provides advocacy, fundraising and grants funding for initiatives that address community needs, ensures that KCLS is able to advance its mission, and enables our public library system to remain vibrant, relevant and central in the lives of residents. For more information, visit www.kclsfoundation.org.

Programs executed by KCLS Foundation or receiving significant support in 2021 include:

Approximately \$133,000 was granted to support KCLS's innovation programs. These programs include Hotspot Lending Services, IdeaX, Emerging Technology, and Data Engineering. Collectively, these programs are improving the ability of KCLS to utilize data and technology to better serve its increasingly diverse communities, while also making Science, Technology, Engineering, Arts and Mathematics (STEAM) education and access to the internet more equitable.

Approximately \$165,000 was granted to purchase two additional Library Locker systems in response to COVID-19 to meet the growing need for safe, contactless pick-up of library items and access outside of normal library operating hours. The lockers represent an expanded service opportunity that can benefit KCLS both now and in the future.

Early Literacy & Children's Programs were granted approximately \$56,000. These programs include Raising a Reader, Supporting Grade Level Reading, and Preschool Play Club. Raising a Reader is a nationally recognized parent engagement and book delivery program. KCLS provides developmentally appropriate and diverse books for young children and their families, which are distributed through community partners each week. Supporting Grade Level Reading partners with schools to foster a love of reading has proven beneficial to participants as they continue through their education. Preschool Play Club is a kindergarten readiness program that was piloted at the White Center library to help children from that community to succeed in kindergarten.

Adult Programming programs were granted approximately \$186,000. A majority of this amount supported KCLS' Extending Services to People Experiencing Homelessness program, approximately \$124,000 which provides outreach to tent cities, providing robust employment, information, and referral services via dedicated KCLS staff and peer navigators utilizing the bookmobile and Mobile Computer Lab. In addition, the Invest in Yourself program received a grant to provide services to patrons who are seeking employment and better career opportunities.

KCLS Summer Reading was granted approximately \$107,000. Summer Reading incentivizes children, teens, and adults to take time to read in the summer months. Summer Reading motivates people to keep learning over the summer, builds community, and establishes the library as a valued space and information hub for all ages. The Summer Reading Program makes it possible to reach, serve, encourage, and reward readers inside and outside the library.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Diversity, Equity and Inclusion (DEI) programs were granted approximately \$127,000. This set of programs advance DEI in our communities in a number of ways. First, the Authors of Color programs brings BIPOC authors to our communities to share their stories. Next, the Welcoming Center for New Arrivals and Supporting Afghan Arrivals programs provide various services to support immigrants, refugees, and other new members of our communities. The Pasifika Collection and Plazas Comunitarias programs provide unique collections of books and literacy programs to Pacific Islander and Spanish-speaking populations, respectively. The Eastside LGBTQ Youth Advisory program is designed to engage and serve LGBTQ youth. Lastly, a grant was awarded to KCLS to fund a DEI Assessment, which will help the system to understand how it can better serve its diverse communities.

KCLS was granted \$207,000 in support of its Fresh Start program to clear late fines from all patron's accounts. Analysis by KCLS staff concluded that a majority of patrons who owed late fines were from lower income communities, and that in many cases these patrons' access to KCLS services was suspended. The Fresh Start program is making the full range of library services accessible to this population.

KCLS Foundation activities of significant importance in 2021 include:

A decision was made by the KCLS Foundation Board to host a virtual Literary Lions Gala due to COVID-19 restrictions and related safety concerns. This virtual event raised approximately \$441,000 through ticket sales, pre-event donations, challenge matching funds, "raise the paddle" donations, employer match and book sales. The money raised was utilized to support a wide variety of KCLS programs as described earlier.

Federal income taxes

The Internal Revenue Service has recognized KCLS Foundation as exempt from federal income taxes under provision of Section 501(a) of the Internal Revenue Code as an entity described in Section 501(c)(3) and not as a private foundation.

Basis of presentation

In accordance with financial accounting standards, KCLS Foundation is required to report information regarding its financial position and activities according to two classes of net assets: Net Assets Without Donor Restrictions and Net Assets With Donor Restrictions. The net assets of KCLS Foundation are classified as follows:

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets Without Donor Restrictions - Net assets available for the use in general operations and not subject to donor (or certain grantor) restrictions. The Board of Directors designated \$1,200,000 and \$1,100,000 of net assets without donor restrictions for operating reserves and specific programs as of December 31, 2021 and 2020, respectively.

Net Assets with Donor Restrictions - Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Net assets with donor restrictions were as follows as of December 31:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specific purpose:		
Literary Lions Gala Sponsorship	\$ 77,500	\$ 60,000
Raising a Reader	2,264	-
Dream Big	5,647	5,647
Restricted Libraries & Library Gifts	<u>100</u>	<u>100</u>
	<u>85,511</u>	<u>65,747</u>
Endowments:		
Subject to spending policy and appropriation:		
Early Literacy and Children's Programs endowment	1,700,550	1,405,305
Not subject to spending policy or appropriation:		
Beneficial interest in charitable lead annuity trust	<u>131,539</u>	<u>209,761</u>
	<u>1,832,089</u>	<u>1,615,066</u>
	<u>\$ 1,917,600</u>	<u>\$ 1,680,813</u>

Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, 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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

Cash and cash equivalents consist of checking accounts, money market funds, and certificates of deposit. Certificates of deposit as of December 31, 2020 bore interest ranging from 0.40% to 0.45% and had original maturities of 7 to 12 months, with penalties for early withdrawal. KCLS Foundation held no certificates of deposit at December 31, 2021. The fair values of the money market funds at December 31, 2021 and 2020, were classified as Level 1 under financial accounting standards, as amounts were based on quoted prices available in active markets for identical investments as of the reporting date.

KCLS Foundation maintains its cash and cash equivalents in bank accounts that may exceed federally insured limits at times during the year or that are uninsured. KCLS Foundation has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

Fair value measurements

In accordance with financial accounting standards, a three-tiered hierarchy of input levels is used for measuring fair value. Financial accounting standards defines fair value as 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. Valuation techniques utilized to determine fair value are consistently applied. The three tiers of inputs used for fair value measurements are as follows:

Level 1: Fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2: Fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.

Level 3: Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

Investments

Investment income and gains restricted by donors are reported as increases in net assets without donor restriction if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments are stated at fair value and consist of the following:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 131,831	\$ 166,889
Equities	4,720,669	3,713,330
Bonds	<u>1,427,092</u>	<u>982,601</u>
	<u>\$ 6,279,592</u>	<u>\$ 4,862,820</u>

Promises to give

Promises to give are stated at their net realizable value. Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Promises to give of \$2,292,001 and \$2,370,001 are shown net of the valuation allowance of \$262,854 and \$253,834 as of December 31, 2021 and 2020, respectively, and are due in less than one year.

Concentration

One bequest receivable represented 99% and 96% of promises to give as of December 31, 2021 and 2020, respectively.

Other receivables

Receivables are stated at their net realizable value.

Beneficial interest in charitable remainder annuity trust

In conjunction with the receipt of a bequest gift in 2018, KCLS Foundation has been named as remainderman in an irrevocable annuity trust. KCLS Foundation recorded their residual interest in the trust at the net present value of estimated future cash flows based on the life expectancy of the primary beneficiary.

Bequests

KCLS Foundation has been named as beneficiary in certain bequests which are revocable during the donors' lifetime. Due to the uncertain nature of these intentions, KCLS Foundation has not recognized an asset or contribution for these gifts.

Support and revenue recognition

KCLS Foundation recognizes revenue from sales of books at the time of purchase or when the books are transferred. KCLS Foundation records special events revenue equal to the cost of direct benefits to donors, and contribution revenue for the difference.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

KCLS Foundation recognizes contributions when cash, securities or other assets, an unconditional promise to give, or 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 or release, are not recognized until the conditions on which they depend have been met. Consequently, as of December 31, 2021, a conditional grant for which no amounts had been received in advance totaling \$137,815 has not been recognized in the accompanying financial statements. KCLS Foundation had no conditional promises to give as of December 31, 2020.

In-kind services and supplies

KCLS Foundation receives donated facilities, equipment, supplies, postage, printing and staff support from KCLS. KCLS Foundation also receives donated goods in support of the Summer Learning Program. The value of these items has been reflected in the accompanying financial statements as in-kind staff, and in-kind office support or program services-in-kind.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and of functional expenses. Where possible, specific expenses have been charged directly to the appropriate category. Personnel costs are allocated based on time and effort towards programs. When functions are shared or costs are intermingled, expenses are allocated based on employee counts.

Use of estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions, such as the change in value of the charitable lead annuity trust and promises to give, that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain accounts in the 2020 financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications had no effect on the net assets or change in net assets as of or for the year ended December 31, 2020.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE B - LIQUIDITY

KCLS Foundation receives significant contributions and promises to give that may be restricted by donors. Financial assets that are not restricted are available to meet programs that are ongoing, major, and central to its annual operations. KCLS Foundation manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

KCLS Foundation's Impact Committee meets at least semi-annually to review and approve grant requests from KCLS. Due to this timing, the KCLS Foundation strives to maintain financial assets available to meet general expenditures at a level that represents 100% of annual expenses for administrative, general, and fundraising expenses plus an amount that represents the next expected payment for semi-annual grant commitments approved by the Impact Committee, which typically represents approximately 50% of the expected annual grant requests. KCLS Foundation policy states that board-designated reserves are approved within the annual budget such that its reserves equal approximately 50% of next fiscal year's budgeted operating revenues.

	<u>2021</u>	<u>2020</u>
Total financial assets	\$ 10,467,873	\$ 8,839,180
Less amounts not available to be used within one year:		
Endowment investments	(1,700,550)	(1,405,305)
Beneficial interest in charitable lead annuity trust	(131,539)	(209,761)
Trust receivable	(399,628)	(300,420)
Funds subject to donor-imposed purpose restrictions	<u>(8,011)</u>	<u>(5,747)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 8,228,145</u>	<u>\$ 6,917,947</u>

NOTE C - FAIR VALUE MEASUREMENTS

Assets carried at fair value on a recurring basis (at least annually) consist of the following:

	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Total</u>
As of December 31, 2021				
Equities	\$ 4,720,669	\$ -	\$ -	\$ 4,720,669
Bonds	1,427,092	-	-	1,427,092
Beneficial interest in charitable lead annuity trust	-	-	131,539	131,539
Total	<u>\$ 6,147,761</u>	<u>\$ -</u>	<u>\$ 131,539</u>	<u>\$ 6,279,300</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE C - FAIR VALUE MEASUREMENTS (Continued)

	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Total</u>
As of December 31, 2020				
Equities	\$ 3,713,330	\$ -	\$ -	\$ 3,713,330
Bonds	982,601	-	-	982,601
Beneficial interest in charitable lead annuity trust	-	-	209,761	209,761
Total	<u>\$ 4,695,931</u>	<u>\$ -</u>	<u>\$ 209,761</u>	<u>\$ 4,905,692</u>

Beneficial interest in charitable lead annuity trust activity for the years ended December 31 is as follows:

	<u>2021</u>	<u>2020</u>
Fair value - beginning of year	\$ 209,761	\$ 288,810
Trust distributions	(84,000)	(84,000)
Change in value of charitable lead annuity trust	5,778	4,951
Fair value - end of year	<u>\$ 131,539</u>	<u>\$ 209,761</u>

There were no movements between levels in the current and prior years, except for trust distributions noted above, which moved from level 3 to level 1 each year as cash was received and subsequently invested. Assets and liabilities carried at fair value on a nonrecurring basis using level 2 inputs generally include donated goods, facilities and services.

NOTE D - RELATED PARTIES

KCLS Foundation promotes literacy, learning, and libraries by providing support beyond public funding for initiatives and resources that enable KCLS to better serve the needs of the community. By its nature, KCLS Foundation is related to the Library and has numerous transactions with it. In support of library programs and projects, KCLS Foundation recognized expenses in the amounts of \$1,015,236 and \$792,746, respectively, related to amounts directly paid to the Library or to vendors on behalf of the Library for the years ended December 31, 2021 and 2020.

Library in-kind staff and office support expenses were valued at \$736,116 and \$641,359, respectively, for the years ended December 31, 2021 and 2020. At December 31, 2021 and 2020, KCLS Foundation had payables directly owed to the Library of \$48,578 and \$190,526, respectively.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE E - ENDOWMENT

The KCLS Foundation endowment consists of one donor-restricted fund established for Early Literacy and Children's Programs.

Interpretation of Relevant Law

Endowments in Washington State are governed by the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as stated in the Revised Code of Washington (RCW) 24.55. KCLS Foundation Board has interpreted UPMIFA 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, KCLS Foundation classifies as donor-restricted net assets: (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment.

Return Objectives and Risk Parameters

KCLS Foundation has adopted investment and spending policies 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.

KCLS Foundation endowed funds are managed in accordance with the Investment Objectives and Guidelines adopted for investment funds (the Fund) of KCLS Foundation. The Fund is managed to provide long-term growth and income.

The specific priorities ranked in order of importance are:

- (1) Capital appreciation due to a relatively long (7-year minimum) time horizon
- (2) Growth of principal / maintenance of purchasing power
- (3) Diversification / stability of principal
- (4) Generation of current income
- (5) Mitigation of risk through limited use of alternative investments

Spending Policy and How the Investment Objectives are Related to the Spending Policy

KCLS Foundation's spending policy, expressed as a percentage of market value of the endowment, is determined on a year-to-year basis by the board upon recommendation of the Finance and Audit Committee. The policy provides the Finance and Audit Committee the latitude to recommend spending up to six percent of the average market value of the endowment over the last 12 quarters.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE E - ENDOWMENT (Continued)

Strategies Employed for Achieving Objectives

KCLS Foundation 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). KCLS Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk

Change in endowment net assets are as follows:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment net assets as of January 1, 2020	\$ -	\$ 1,121,775	\$ 1,121,775
Plus:			
Trust distributions	-	84,000	84,000
Investment income	-	17,464	17,464
Net gain on investments	-	192,066	192,066
Less:			
Appropriation of endowment assets for expenditure	-	(10,000)	(10,000)
Endowment net assets as of December 31, 2020	-	1,405,305	1,405,305
Plus:			
Trust distributions	-	84,000	84,000
Investment income	-	29,362	29,362
Net gain on investments	-	191,883	191,883
Less:			
Appropriation of endowment assets for expenditure	-	(10,000)	(10,000)
Endowment net assets as of December 31, 2021	<u>\$ -</u>	<u>\$ 1,700,550</u>	<u>\$ 1,700,550</u>

NOTE F - BENEFICIAL INTEREST IN CHARITABLE LEAD ANNUITY TRUST

In June 2008, KCLS Foundation received a beneficial interest in a charitable lead annuity trust. The donor funded a trust to make payments to KCLS Foundation of \$84,000 per year over a fifteen-year period. In 2023, the remaining assets will be paid to the donor's surviving children. Assets received were recorded at fair value of \$1,260,000 on the date of the agreement, with a related discount of \$266,604 to net present value based on future cash flows. On an annual basis, KCLS Foundation revalues the asset, considering the passage of time, expected future cash flows, and discount rate assumptions, to reflect current market conditions.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE G - SIGNIFICANT ESTIMATES

In 2018, the Foundation was notified that it was a 10% beneficiary of a large estate. The primary asset of the estate is a retail shopping center (“the Center”) currently operating in Washington State in the Puget Sound region. The Center has continued normal operations while administration of the estate has progressed. It is the estate’s intention to sell the Center and liquidate the estate in an orderly fashion. Based on an independent market appraisal determining the value of the Center, the Foundation recognized its interest in the estate in the amount of approximately \$3.6 million in 2018 as a contribution and a promise to give. The Foundation receives periodic cash distributions from the ongoing operations of the Center as it continues normal retail operations pending any sale of the Center. The Foundation has received a total of \$1,125,000 from ongoing operations of the Center since 2018.

As of December 31, 2021, the Center was not sold. The promise to give related to this estate totaled \$2,524,355 and \$2,515,335 as of December 31, 2021 and 2020, respectively, net of a 10% valuation allowance. Management believes this amount to be ultimately collectible. Actual net total proceeds from the Foundation’s financial interest in this estate could vary from this estimate.

NOTE H - RISKS AND UNCERTAINTIES

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. On March 23, 2020, the Governor of Washington declared a health emergency and issued an order to close all nonessential businesses until further notice. Management is continually evaluating the ongoing impacts of the COVID-19 pandemic and has concluded that while it is reasonably possible that the virus could have a negative effect on the KCLS Foundation's financial position, change in net asset and cash flows, the specific impact, if any, is not readily determinable as of the date of these financial statements.

NOTE I - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2021 through September 30, 2022, which is the date the financial statements were available to be issued and has recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at December 31, 2021 including the estimates inherent in the processing of the financial statements.