

KING COUNTY LIBRARY SYSTEM FOUNDATION

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2010 AND 2009

KING COUNTY LIBRARY SYSTEM FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	2
STATEMENTS OF FINANCIAL POSITION December 31, 2010 and 2009	3
STATEMENTS OF ACTIVITIES Years ended December 31, 2010 and 2009	4
STATEMENTS OF FUNCTIONAL EXPENSES Years ended December 31, 2010 and 2009	5
STATEMENTS OF CASH FLOWS Years ended December 31, 2010 and 2009	6
NOTES TO FINANCIAL STATEMENTS	7 - 15

INDEPENDENT AUDITOR'S REPORT

June 10, 2011

Board of Directors
King County Library System Foundation
Issaquah, Washington

We have audited the accompanying statements of financial position of King County Library System Foundation (a non-profit corporation) as of December 31, 2010 and 2009 and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the management of King County Library System Foundation. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of King County Library System Foundation as of December 31, 2010 and 2009 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Jacobson Jarvis & Co, PLLC

Jacobson Jarvis & Co, PLLC

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 757,098	\$ 672,082
Investments	834,850	782,816
Promises to give, current	44,240	28,360
Other receivables	14,841	26,087
Inventory	31,308	31,957
Other current assets	31,205	1,606
Total Current Assets	<u>1,713,542</u>	<u>1,542,908</u>
Promises to give, long term	8,250	-
Endowment investments	216,879	131,533
Beneficial interest in charitable lead annuity trust	886,892	914,988
Total Assets	<u>\$ 2,825,563</u>	<u>\$ 2,589,429</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 34,635	\$ 58,609
Grants payable to others	29,834	39,306
Total Liabilities	<u>64,469</u>	<u>97,915</u>
Net Assets		
Unrestricted	1,088,206	938,580
Unrestricted - board designated	471,000	471,000
Total Unrestricted Net Assets	<u>1,559,206</u>	<u>1,409,580</u>
Temporarily restricted	131,876	67,826
Permanently restricted	1,070,012	1,014,108
Total Net Assets	<u>2,761,094</u>	<u>2,491,514</u>
	<u>\$ 2,825,563</u>	<u>\$ 2,589,429</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010				2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support, Revenue, and Other Support								
In-kind contributions	\$ 316,053	\$ 28,570		\$ 344,623	\$ 311,045	\$ -		\$ 311,045
Other contributions	199,283	204,763		404,046	152,501	114,217		266,718
Special events revenue, net of direct benefits provided of \$17,888 and \$21,421	100,942			100,942	86,583			86,583
Book sales	166,534			166,534	133,730			133,730
Investment income	29,663	4,796		34,459	43,172	3,471		46,643
Other revenues	29,831			29,831	27,311			27,311
Net assets released from restrictions	189,418	(189,418)		-	219,761	(219,761)		-
Total Public Support, Revenue, and Other Support	<u>1,031,724</u>	<u>48,711</u>	<u>-</u>	<u>1,080,435</u>	<u>974,103</u>	<u>(102,073)</u>	<u>-</u>	<u>872,030</u>
Expenses								
Program services	542,707			542,707	620,022			620,022
Management and general	174,754			174,754	186,005			186,005
Fundraising	239,443			239,443	211,958			211,958
Total Expenses	<u>956,904</u>	<u>-</u>	<u>-</u>	<u>956,904</u>	<u>1,017,985</u>	<u>-</u>	<u>-</u>	<u>1,017,985</u>
Change in Net Assets Before Gains and Losses	<u>74,820</u>	<u>48,711</u>	<u>-</u>	<u>123,531</u>	<u>(43,882)</u>	<u>(102,073)</u>	<u>-</u>	<u>(145,955)</u>
Gains and Losses								
Net gain on investments	74,806	15,339		90,145	117,204	12,142		129,346
Change in value of charitable lead annuity trust	-	-	55,904	55,904	-	-	278,734	278,734
Total Gains and Losses	<u>74,806</u>	<u>15,339</u>	<u>55,904</u>	<u>146,049</u>	<u>117,204</u>	<u>12,142</u>	<u>278,734</u>	<u>408,080</u>
Total Change in Net Assets	<u>149,626</u>	<u>64,050</u>	<u>55,904</u>	<u>269,580</u>	<u>73,322</u>	<u>(89,931)</u>	<u>278,734</u>	<u>262,125</u>
Net Assets – beginning of year	<u>1,409,580</u>	<u>67,826</u>	<u>1,014,108</u>	<u>2,491,514</u>	<u>1,336,258</u>	<u>157,757</u>	<u>735,374</u>	<u>2,229,389</u>
Net Assets – end of year	<u>\$1,559,206</u>	<u>\$ 131,876</u>	<u>\$1,070,012</u>	<u>\$2,761,094</u>	<u>\$ 1,409,580</u>	<u>\$ 67,826</u>	<u>\$1,014,108</u>	<u>\$2,491,514</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010				2009			
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
Supplies	\$ 310,542	\$ -	\$ 239	\$ 310,781	\$ 206,466	\$ 1,612	\$ 447	\$ 208,525
In-kind staff	50,308	126,935	97,956	275,199	48,938	125,237	96,863	271,038
Grants to others	140,576	-	-	140,576	168,123	-	-	168,123
Professional fees	17,915	18,468	74,202	110,585	76,809	23,825	57,247	157,881
Special events	-	-	45,312	45,312	-	-	31,110	31,110
In-kind grants and supplies	17,222	9,996	11,888	39,106	113,212	13,003	13,542	139,757
Investment and bank fees	-	12,938	1,750	14,688	-	12,909	929	13,838
Miscellaneous	819	5,236	3,126	9,181	339	7,850	5,746	13,935
Community events	4,956	952	444	6,352	6,135	1,460	-	7,595
Printing and postage	-	18	4,207	4,225	-	-	4,016	4,016
Rentals and meetings	369	211	319	899	-	109	2,058	2,167
Total Expenses	<u>\$ 542,707</u>	<u>\$ 174,754</u>	<u>\$ 239,443</u>	<u>\$ 956,904</u>	<u>\$ 620,022</u>	<u>\$ 186,005</u>	<u>\$ 211,958</u>	<u>\$1,017,985</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities		
Cash received from donors	\$ 526,918	\$ 401,006
Cash received from book sales	177,780	126,675
Cash received from others	30,480	31,052
Cash received from interest	12,439	1,439
Cash paid to vendors	(561,087)	(458,766)
Grants paid to King County Library System	(138,809)	(173,585)
Grants paid to others	<u>(11,239)</u>	<u>(10,900)</u>
Net Cash Provided (Used) by Operating Activities	<u>36,482</u>	<u>(83,079)</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	1,546,639	1,069,117
Purchases of investments	<u>(1,582,105)</u>	<u>(1,148,793)</u>
Net Cash Used by Investing Activities	<u>(35,466)</u>	<u>(79,676)</u>
Cash Flows Provided by Financing Activities		
Cash received from beneficial interest in charitable lead annuity trust	<u>84,000</u>	<u>84,000</u>
Change in Cash and Cash Equivalents	85,016	(78,755)
Cash and Cash Equivalents - beginning of year	<u>672,082</u>	<u>750,837</u>
Cash and Cash Equivalents - end of year	<u>\$ 757,098</u>	<u>\$ 672,082</u>
Reconciliation of Change in Net Assets to Cash		
Flows from Operating Activities		
Change in net assets	\$ 269,580	\$ 262,125
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Donation of investments	(2,146)	(1,628)
Net gain on investments	(90,145)	(129,346)
Change in value of charitable lead annuity trust	(55,904)	(278,734)
Reinvested dividends	(22,020)	(45,204)
(Increase) decrease in:		
Promises to give	(24,130)	127,662
Other receivables	11,246	(7,474)
Inventory	649	(31,957)
Other current assets	(29,599)	(1,606)
Beneficial interest in charitable lead annuity trust	-	-
(Decrease) increase in:		
Accounts payable	(11,577)	39,445
Grants payable	<u>(9,472)</u>	<u>(16,362)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 36,482</u>	<u>\$ (83,079)</u>

See notes to financial statements.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The King County Library System Foundation (KCLS Foundation) creates opportunities to bring literacy, learning and library access to all members of our diverse community. The KCLS Foundation provides the funding for library initiatives that address community needs, the funding for value-added programs and resources, and the vision to ensure that our public library system is vibrant, relevant and central in the lives of residents. As sources of information multiply, it is vital that the King County Library System delivers services in the libraries, online and in our communities. Each year, nearly 200,000 children and adults participate in KCLS Foundation-supported programs. For more information, visit www.kclsfoundation.org.

Literacy: Encouraging Readers of All Ages

Literacy is the entry ticket to society, culture, and quality of life. These programs provide opportunities to enhance literacy for young children and for adults in our community.

- Reading to and with young children is one of the most effective ways parents can support brain development and early learning skills. In 2010, the KCLS Foundation continued to support the Ready to Read program with funding for Fiestas de Alfabetizacion, which provides early literacy training to Spanish-speaking parents. Fiestas involved 1,226 parents in the workshop series and 1,533 children in the programs.
- The KCLS Foundation provided support for the Books for Babies program. Public Health Nurses delivered 3,500 board books in seven languages, early literacy DVDs and reading tips to new mothers in low income areas of the county.
- The KCLS Foundation provided funding for books for opening day collections in the four new Library2Go! vans. Library2Go! made 444 childcare, senior site and community visits, serving 4,055 residents. The majority of the visits were to in-home day care centers, offering caregivers and young children easy access to books.
- In 2010, the KCLS Foundation provided funding for Citizenship Classes, including free in-class workbooks for participants. Citizenship Classes were presented to 1,766 immigrants seeking preparation for the U.S. Naturalization Test.

Learning: Enhancing the Pursuit of Knowledge

These programs motivate the improvement of reading and comprehension skills and encourage the pursuit of knowledge, whether for practical purposes or for its own sake.

- The popular Summer Reading Program – Make a Splash – Read! - attracted 47,039 young readers and rewarded 24,104 readers for reaching their 1,000-minute goal. In addition to general support, the KCLS Foundation provided funding for buses to bring 3,041 summer school students to libraries for summer reading programs and activities.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Reading skills are vital to academic achievement, especially in the early grades. Ready, Set, Read! challenges kids to set goals and establish the reading habit. Eighteen school districts promote the program in elementary grades. In 2009-2010, the Foundation provided 12,676 books to students who completed their 400-minute goal, a 26% increase over the previous school year.
- The Global Reading Challenge combines great books and quiz show questions in a fun and fast-paced contest. In 2010-2011, 1,757 fourth- and fifth-grade students on 251 teams from 11 school districts competed in these challenging “battle of the books” competitions. The program encourages students to work together as a team and the competitions are spirited, with the motto “You Always Win When You Read a Book.”
- Students seeking help with homework can visit Study Zones in nearly all libraries. Volunteers contributed more than 10,128 hours and tutored 6,796 students in Math, Science, Social Studies, English and Reading in 2010. In 2010, The Foundation also funded 14 SAT prep classes with a limited enrollment of 22 per class for a total of 308 students. The Foundation also funded workbooks for each participant.
- In 2010, 5,321 teens read 28,557 books in the Read 3, Get 1 Free program. For each set of three reviews, a teen selected a free book as a reward (8,859 distributed). The Foundation also provided prizes for the Read.Flip.Win contest where teens filmed book reviews and trailers.

Libraries: Reaching Out, Enhancing Access

Outreach programs bring in visitors, many of whom are experiencing a public library for the first time. These programs enhance the patron experience and encourage repeat visits.

- The KCLS Foundation sees significant value in building a new generation of librarians who will serve our community in the decades ahead. The KCLS Foundation provided five scholarships for KCLS staff members seeking their masters’ degrees in library and information science.
- The KCLS Foundation supported Hello House! programs for children and parents on emergency preparedness and energy savings. Nearly 2,000 participants enjoyed this unique program created by popular performer Nancy Stewart, which featured songs, sets, stories and activities that engaged children and adults in learning more about these vital topics.
- The KCLS Foundation welcomed more than 1,000 visitors to new library preview events. The Foundation presented awards to members of Friends of the Library groups and hosted more than 100 guests at the annual Friends of the Library recognition event.
- The KCLS Foundation’s annual Literary Lions Gala event, held at the Bellevue Library, welcomed 450 guests and featured 30 local authors, including keynote speaker Richard Russo and emcee Nancy Pearl.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Believing that reading is transformational, the KCLS Foundation provided funding for Take Time to Read, an innovative program that encourages adults to read and provides easy access to materials. Nearly 2,000 adults participated in the Winter Reading Program, and thousands viewed the more than 100 larger-than-life-sized book posters in eight communities, read books off the Quick Reads Shelves in community venues and attended programs. The program will continue in fall 2011-spring 2012 and fall 2012-spring 2013.

Basis of presentation

In accordance with financial accounting standards, the KCLS Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The net assets of the KCLS Foundation are classified as follows:

Unrestricted net assets are available without restriction for support of the KCLS Foundation's operations. The Board of Directors designated \$471,000 of unrestricted net assets for operating reserves and specific programs as of December 31, 2010 and 2009.

Temporarily restricted net assets are restricted by the donors to be used for certain purposes or future periods. Temporarily restricted net assets are available as follows at December 31:

	<u>2010</u>	<u>2009</u>
Take Time To Read	\$ 49,071	\$ -
Early Literacy and Children's Programs	34,284	32,938
Library2Go!	27,113	-
Community Leaders	4,542	3,042
Read Me a Story	4,500	4,500
Global Reading Challenge	4,402	-
Story Train	2,000	2,000
Other Programs	1,856	3,401
Library Preview Parties	1,835	3,500
Study Zone	1,523	1,195
Emergency Preparedness	750	2,750
Early Literacy - Spanish	-	5,500
Ready Set Read	-	4,500
Teen Programming	-	4,500
	<u>\$ 131,876</u>	<u>\$ 67,826</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permanently restricted net assets are endowment gifts given with the intent that the principal will be maintained intact in perpetuity, and the income is available for use.

Federal income tax

The Internal Revenue Service has recognized the 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.

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 for promises to give related to bequests 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.

Cash and cash equivalents

Cash and cash equivalents consist of checking accounts and money market funds. The 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. The KCLS Foundation has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

Investments

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

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 50,052	\$ 42,000
Equities	758,044	631,892
Bonds	<u>243,633</u>	<u>240,457</u>
	<u>\$ 1,051,729</u>	<u>\$ 914,349</u>

Investment income and gains restricted by donors are reported as increases in unrestricted net assets 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.

Inventory

Inventory includes cookbooks. They are stated on the basis of average cost.

Receivables

Receivables are stated at their net realizable value.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Promises to give

Unconditional promises to give are stated at net realizable value and are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. The fair value of contributions receivable is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities. Unconditional promises to give at December 31, 2010 are due as follows:

Receivable in less than one year	\$ 44,240
Receivable in one to five years	<u>8,250</u>
Total unconditional promises to give	<u>\$ 52,490</u>

Conditional promises to give are recognized when the conditions on which they depend are substantially met. The KCLS Foundation had no conditional promises to give at December 31, 2010 or 2009.

Restricted and unrestricted support

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of unrestricted activities and of changes in net assets as net assets released from restrictions.

Gifts of property and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

In-kind services and supplies

The KCLS Foundation receives donated facilities, equipment, supplies, postage, printing and staff support from the King County Library System. The KCLS Foundation also receives donated goods in support of the Summer Reading Program. The value of these items has been reflected in the accompanying financial statements as in-kind staff, grants and supplies.

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 unrestricted activities and of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE B - GRANTS PAYABLE

Grants payable consist of the following at December 31,	<u>2010</u>	<u>2009</u>
Payable to King County Library System for library programs	\$ 28,434	\$ 35,506
Grants to scholarship recipients	<u>1,400</u>	<u>3,800</u>
Total Grants Payable	<u>\$ 29,834</u>	<u>\$ 39,306</u>

NOTE C - CHARITABLE LEAD ANNUITY TRUST

In June 2008, the KCLS Foundation received a beneficial interest in a charitable lead annuity trust. The donor funded a trust to make payments to the KCLS Foundation of \$84,000 a 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, the KCLS Foundation revalues the asset considering the passage of time, expected future cash flows, and discount rate assumptions to reflect current market conditions.

NOTE D - 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. Assets carried at fair value on a recurring basis (at least annually) using level 1 inputs include equity and debt securities.

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. Assets and liabilities carried at fair value on a nonrecurring basis using level 2 inputs generally include donated goods, facilities and services. The KCLS Foundation had no items carried at fair value on a recurring basis using level 2 inputs as of December 31, 2010 and 2009.

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. Long-term promises to give are valued on a nonrecurring basis using the net present value of future cash flows discounted at a risk-free rate of return which is a level 3 input.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE D - FAIR VALUE MEASUREMENTS (Continued)

The beneficial interest in a charitable lead annuity trust was the only asset or liability valued on a recurring basis using level 3 inputs (see Note C).

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

	<u>2010</u>	<u>2009</u>
Fair value - Beginning of year	\$ 914,988	\$ 720,254
Trust distributions	(84,000)	(84,000)
Change in value of charitable lead annuity trust	<u>55,904</u>	<u>278,734</u>
Fair value - End of year	<u>\$ 886,892</u>	<u>\$ 914,988</u>

NOTE E - ENDOWMENT

The KCLS Foundation endowment consists of one donor restricted fund established for Early Literacy and Children's Programs. The endowment includes both permanently and temporarily donor restricted funds which are classified and reported based on the existence of donor-imposed restrictions.

Interpretation of Relevant Law

Effective July 1, 2009, endowments in Washington State are now governed by the "Uniform Prudent Management of Institutional Funds Act," UPMIFA, as stated in the Revised Code of Washington (RCW) 24.55. This new law superseded RCW 24.44, the "Uniform Management of Institutional Funds Act," which was in place for many prior years.

The 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, the KCLS Foundation classifies as permanently 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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets.

Return Objectives and Risk Parameters

The 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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE E - ENDOWMENT (Continued)

The KCLS Foundation endowed funds consisting of all general operating endowment funds, named endowed funds, and quasi-endowment funds, are managed in accordance with the Investment Objectives and Guidelines adopted for investment funds (the “Fund”) of the 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

Strategies Employed for Achieving Objectives

The 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). The 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 constraints.

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

While the KCLS Foundation’s spending policy for endowed funds may fluctuate within a narrow range, it is expected to average approximately five percent of the average market value over the last 12 quarters.

Change in endowment net assets for the year ended December 31, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets				
January 1, 2010	\$ -	\$ 15,613	\$ 115,920	\$ 131,533
Plus:				
Trust distributions	-	6,720	77,280	84,000
Investment income	-	4,796	-	4,796
Net gain on investments	-	15,339	-	15,339
Less:				
Appropriation of endowment assets for expenditure	-	(18,789)	-	(18,789)
Endowment net assets				
December 31, 2010	<u>\$ -</u>	<u>\$ 23,679</u>	<u>\$ 193,200</u>	<u>\$ 216,879</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE E - ENDOWMENT (Continued)

Change in endowment net assets for the year ended December 31, 2009:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets				
January 1, 2009	\$ -	\$ -	\$ 42,000	\$ 42,000
Plus:				
Trust distributions	-	10,080	73,920	84,000
Investment income	-	3,471	-	3,471
Net gain on investments	-	12,142	-	12,142
Less:				
Appropriation of endowment				-
assets for expenditure	<u>-</u>	<u>(10,080)</u>	<u>-</u>	<u>(10,080)</u>
Endowment net assets				
December 31, 2009	<u>\$ -</u>	<u>\$ 15,613</u>	<u>\$ 115,920</u>	<u>\$ 131,533</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the KCLS Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2010 or 2009.

NOTE F - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2010 through June 10, 2011, 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, 2010, including the estimates inherent in the processing of financial statements.