

KING COUNTY LIBRARY SYSTEM FOUNDATION

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2011 AND 2010

KING COUNTY LIBRARY SYSTEM FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	2
STATEMENTS OF FINANCIAL POSITION December 31, 2011 and 2010	3
STATEMENTS OF ACTIVITIES Years ended December 31, 2011 and 2010	4
STATEMENTS OF FUNCTIONAL EXPENSES Years ended December 31, 2011 and 2010	5
STATEMENTS OF CASH FLOWS Years ended December 31, 2011 and 2010	6
NOTES TO FINANCIAL STATEMENTS	7 - 17

INDEPENDENT AUDITOR'S REPORT

July 13, 2012

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, 2011 and 2010 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, 2011 and 2010 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

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 797,246	\$ 757,098
Investments	813,281	834,850
Promises to give, current	68,763	44,240
Other receivables	16,589	14,841
Inventory	-	31,308
Other current assets	<u>49,878</u>	<u>31,205</u>
Total Current Assets	1,745,757	1,713,542
Promises to give, long term	-	8,250
Endowment investments	280,995	216,879
Beneficial interest in charitable lead annuity trust	<u>844,394</u>	<u>886,892</u>
Total Assets	<u>\$ 2,871,146</u>	<u>\$ 2,825,563</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 43,919	\$ 34,635
Grants payable to others	<u>25,400</u>	<u>29,834</u>
Total Liabilities	<u>69,319</u>	<u>64,469</u>
Net Assets		
Unrestricted	1,132,025	1,088,206
Unrestricted - board designated	<u>487,500</u>	<u>471,000</u>
Total Unrestricted Net Assets	1,619,525	1,559,206
Temporarily restricted	70,788	131,876
Permanently restricted	<u>1,111,514</u>	<u>1,070,012</u>
Total Net Assets	<u>2,801,827</u>	<u>2,761,094</u>
	<u>\$ 2,871,146</u>	<u>\$ 2,825,563</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support, Revenue, and Other Support								
In-kind contributions	\$ 326,781			\$ 326,781	\$ 316,053	\$ 28,570		\$ 344,623
Other contributions	220,241	\$ 279,049		499,290	199,283	204,763		404,046
Special events revenue, net of direct benefits provided of \$16,358 and \$17,888	117,125	-		117,125	100,942	-		100,942
Book sales	165,199	-		165,199	166,534	-		166,534
Investment income	19,287	4,457		23,744	29,663	4,796		34,459
Other revenues	34,567	-		34,567	29,831	-		29,831
Net assets released from restrictions	337,205	(337,205)		-	189,418	(189,418)		-
Total Public Support, Revenue, and Other Support	<u>1,220,405</u>	<u>(53,699)</u>	<u>-</u>	<u>1,166,706</u>	<u>1,031,724</u>	<u>48,711</u>	<u>-</u>	<u>1,080,435</u>
Expenses								
Program services	636,223			636,223	542,707			542,707
Management and general	181,882			181,882	174,754			174,754
Fundraising	273,828			273,828	239,443			239,443
Total Expenses	<u>1,091,933</u>			<u>1,091,933</u>	<u>956,904</u>			<u>956,904</u>
Change in Net Assets Before Gains and Losses	<u>128,472</u>	<u>(53,699)</u>	<u>-</u>	<u>74,773</u>	<u>74,820</u>	<u>48,711</u>	<u>-</u>	<u>123,531</u>
Gains and Losses								
Net gain (loss) on investments	(36,852)	(7,389)		(44,241)	74,806	15,339		90,145
Change in value of charitable lead annuity trust	-	-	\$ 41,502	41,502	-	-	\$ 55,904	55,904
Inventory loss	(31,301)	-	-	(31,301)	-	-	-	-
Total Gains and Losses	<u>(68,153)</u>	<u>(7,389)</u>	<u>41,502</u>	<u>(34,040)</u>	<u>74,806</u>	<u>15,339</u>	<u>55,904</u>	<u>146,049</u>
Total Change in Net Assets	<u>60,319</u>	<u>(61,088)</u>	<u>41,502</u>	<u>40,733</u>	<u>149,626</u>	<u>64,050</u>	<u>55,904</u>	<u>269,580</u>
Net Assets – beginning 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>
Net Assets – end of year	<u>\$1,619,525</u>	<u>\$ 70,788</u>	<u>\$1,111,514</u>	<u>\$2,801,827</u>	<u>\$ 1,559,206</u>	<u>\$ 131,876</u>	<u>\$1,070,012</u>	<u>\$2,761,094</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011				2010			
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
In-kind staff	\$ 52,127	\$ 130,780	\$ 100,911	\$ 283,818	\$ 50,308	\$ 126,935	\$ 97,956	\$ 275,199
Supplies	247,578	654	3,390	251,622	310,542	-	239	310,781
Grants to others	247,445	-	-	247,445	140,576	-	-	140,576
Professional fees	61,381	14,931	90,507	166,819	17,915	18,468	74,202	110,585
In-kind grants and supplies	22,875	13,673	15,538	52,086	17,222	9,996	11,888	39,106
Special events	-	-	44,235	44,235	-	-	45,312	45,312
Investment and bank fees	-	14,638	2,985	17,623	-	12,938	1,750	14,688
Miscellaneous	796	6,133	9,217	16,146	819	5,236	3,126	9,181
Printing and postage	-	2	5,770	5,772	-	18	4,207	4,225
Community events	2,893	888	947	4,728	4,956	952	444	6,352
Rentals and meetings	1,128	183	328	1,639	369	211	319	899
Total Expenses	<u>\$ 636,223</u>	<u>\$ 181,882</u>	<u>\$ 273,828</u>	<u>\$1,091,933</u>	<u>\$ 542,707</u>	<u>\$ 174,754</u>	<u>\$ 239,443</u>	<u>\$ 956,904</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Cash received from donors	\$ 537,877	\$ 526,918
Cash received from book sales	163,451	177,780
Cash received from others	34,574	30,480
Cash received from interest	757	12,439
Cash paid to vendors	(519,723)	(561,087)
Grants paid to King County Library System	(232,079)	(138,809)
Grants paid to others	(19,800)	(11,239)
Net Cash (Used) Provided by Operating Activities	<u>(34,943)</u>	<u>36,482</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	976,577	1,546,639
Purchases of investments	(985,486)	(1,582,105)
Net Cash Used by Investing Activities	<u>(8,909)</u>	<u>(35,466)</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	40,148	85,016
Cash and Cash Equivalents - beginning of year	757,098	672,082
Cash and Cash Equivalents - end of year	<u>\$ 797,246</u>	<u>\$ 757,098</u>
Reconciliation of Change in Net Assets to Cash		
Flows from Operating Activities		
Change in net assets	\$ 40,733	\$ 269,580
Adjustments to reconcile change in net assets to cash (used) provided by operating activities:		
Donation of investments	(69,500)	(2,146)
Net loss (gain) on investments	44,241	(90,145)
Change in value of charitable lead annuity trust	(41,502)	(55,904)
Inventory loss	31,301	-
Reinvested dividends	(22,987)	(22,020)
(Increase) decrease in:		
Promises to give	(16,273)	(24,130)
Other receivables	(1,748)	11,246
Inventory	7	649
Other current assets	(18,673)	(29,599)
Increase (decrease) in:		
Accounts payable	23,892	(11,577)
Grants payable to others	(4,434)	(9,472)
Net Cash (Used) Provided by Operating Activities	<u>\$ (34,943)</u>	<u>\$ 36,482</u>

See notes to financial statements.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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 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. Each year, more than 200,000 children and adults participate in and benefit from 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.

- Reading to and with young children is one of the most effective ways parents can support brain development and early learning skills. In 2011, The KCLS Foundation continued to support Fiestas de Alfabetizacion, which provides early literacy training to Spanish-speaking parents. Fiestas involved 2,356 parents and children in the series of workshops.
- Facilitators lead Play and Learn groups that include Early Literacy activities for children and their parents or caregivers. In 2011, 64 sessions were held at the Foster and Woodmont Libraries and involved 1,429 participants.
- You Choose the Next Newbery is a literature-based program that encourages school-age children to read, evaluate, blog and talk about their favorite books of the year, and vote for a KCLS winner. Books were purchased for class teams, which involved 290 students.
- The KCLS Foundation provided support for the Books for Babies program. Public health nurses delivered 1,440 English and 719 board books in seven languages, early literacy DVDs and reading tips to new mothers in low income areas of the library's service district.
- The KCLS Foundation provided additional funding for collections in four Library2Go vans. Library2Go made 210 visits to childcares, senior facilities and community stops, serving 19,420 residents. The majority of the visits were to in-home day care centers, offering caregivers and young children easy and consistent access to books.
- The KCLS Foundation sponsored programs featuring renowned children's book author/illustrator Jez Alborough. Hundreds of children met the author at library and school visits.
- The KCLS Foundation provided funding for Literacy Toward Citizenship classes, including free workbooks for participants. Classes were presented to more than 400 immigrants seeking preparation for the US Naturalization test.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Learning: Enhancing the Pursuit of Knowledge

These programs motivate the improvement of reading and comprehension skills and encourage the pursuit of knowledge for practical purposes and for the joy of learning.

- The popular Summer Reading Program – One World, Many Stories - attracted 45,540 young readers and awarded 23,380 halfway prizes and 20,046 final prizes for participants who reached their 1,000 minute goal. In addition to general support, the KCLS Foundation funded buses to bring 3,067 summer school students to libraries for summer reading programs and activities.
- 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 2010-11 the Foundation provided 15,770 books to students who completed their 400-minute goal, a 22% increase over the previous year.
- The Global Reading Challenge combines great books and quiz questions in a fun and fast-paced contest. In 2010-11, 1,841 4th and 5th grade students on 263 teams from 53 schools in 12 school districts competed in challenging competitions. The program involves students of all reading levels and the KCLS Foundation provides books for the teams.
- The KCLS Foundation helped support the Life After High School program series, hosting 16 of the 63 programs, which drew 240 teens and parents.
- Students seeking help with homework can visit Study Zones in nearly all libraries. In 2010-2011, 280 volunteers contributed 11,805 hours and tutored 8,527 students in Math, Science, Social Studies Reading and English at 36 libraries and through online assistance. The KCLS Foundation also funded 4 SAT Prep Classes and workbooks for 88 students in low-income areas.
- In 2011, 8,395 teens read 23,185 books in the Read 3, Get 1 Free program. For each set of three reviews, a teen selected a free book as a reward. The KCLS Foundation hosted a red carpet event and 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 library for the first time. These programs enhance the patron experience and encourage repeat visits.

- KCLS Foundation and King County Library System launched the Take Time to READ program, a three-year initiative to help residents encounter reading opportunities and materials in unexpected places. Reading Chairs and Quick Reads Shelves were placed in community venues and stocked with materials, Book Cover Posters appeared in numerous communities, Gift of Time cards were distributed, and adults participated in a Winter Reading Program.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

- The KCLS Foundation welcomed nearly 500 visitors to preview events at the Kenmore, Lake Forest Park and Newport Way Libraries.
- The KCLS Foundation co-hosted the Flavors of the World Cultural Fair at the Federal Way Library, which brought together several hundred people and numerous community partners. The event featured booths, dance, food and music from several countries and cultures.
- Funding from a local foundation provided support for Job Search Basics, a set of online services to assist English language learners, immigrants and refugees with their job search available in English, Spanish, Chinese, Somali and Vietnamese.
- KCLS was named Library of the Year and the KCLS Foundation funded special lanyards for staff ID badges.
- The KCLS Foundation presented awards to members of the Friends of the Library groups and hosted 140 guests at the library's annual Friends of the Library recognition event.
- The KCLS Foundation sees significant value in encouraging a new generation of librarians who will serve our community in the decades ahead. The KCLS Foundation provided four scholarships for KCLS staff members seeking their masters' degrees in library and information science.
- The KCLS Foundation's annual Literary Lions Gala, held at the Bellevue Library, welcomed 400 guests and featured speaker Vince Flynn, emcee Nancy Pearl and 30 local authors. The Gala also showcases the library's programs, buildings and services.

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 \$487,500 and \$471,000 of unrestricted net assets for operating reserves and specific programs as of December 31, 2011 and 2010, respectively.

Temporarily restricted net assets are restricted by the donors to be used for certain purposes or future periods.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Temporarily restricted net assets are available as follows at December 31:

	<u>2011</u>	<u>2010</u>
Take Time To Read	\$ 21,195	\$ 49,071
Children's Programming	20,000	-
Early Literacy and Children's Programs	14,400	34,284
Read Me a Story	4,500	4,500
Library2Go!	3,443	27,113
Community Leaders	3,404	4,542
Other Programs	3,087	1,856
Library Preview Parties	759	1,835
Global Reading Challenge	-	4,402
Story Train	-	2,000
Study Zone	-	1,523
Emergency Preparedness	-	750
	<u>\$ 70,788</u>	<u>\$ 131,876</u>

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.

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. The fair values of the money market funds at December 31, 2011 and 2010, 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.

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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 54,801	\$ 50,052
Equities	759,368	758,044
Bonds	<u>280,107</u>	<u>243,633</u>
	<u>\$ 1,094,276</u>	<u>\$ 1,051,729</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 stated at average cost. At December 31, 2011, the KCLS Foundation recorded a loss on inventory of \$31,301 due to quantities in excess of current requirements.

Receivables

Receivables are stated at their net realizable value.

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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unconditional promises to give of at December 31, 2011 and 2010 are due as follows:

	<u>2011</u>	<u>2010</u>
Receivable in less than one year	\$ 68,763	\$ 44,240
Receivable in one to five years	-	8,250
	<u>\$ 68,763</u>	<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, 2011 or 2010.

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.

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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

NOTE B - GRANTS PAYABLE

Grants payable consist of the following at December 31,

	<u>2011</u>	<u>2010</u>
Payable to King County Library System for library programs	\$ 24,100	\$ 28,434
Grants to scholarship recipients	1,300	1,400
	<u>\$ 25,400</u>	<u>\$ 29,834</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

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

	Quoted Prices (Level 1)	Other Observable (Level 2)	Unobservable Inputs (Level 3)	Total
As of December 31, 2011				
Equities	\$ 759,368	\$ -	\$ -	\$ 759,368
Bonds	280,107	-	-	280,107
Charitable lead annuity trust	-	-	844,394	844,394
Total	<u>\$ 1,039,475</u>	<u>\$ -</u>	<u>\$ 844,394</u>	<u>\$ 1,883,869</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE D - FAIR VALUE MEASUREMENTS (Continued)

	Quoted Prices (Level 1)	Other Observable (Level 2)	Unobservable Inputs (Level 3)	Total
As of December 31, 2010				
Equities	\$ 758,044	\$ -	\$ -	\$ 758,044
Bonds	243,633	-	-	243,633
Charitable lead annuity trust	-	-	886,892	886,892
Total	<u>\$ 1,001,677</u>	<u>\$ -</u>	<u>\$ 886,892</u>	<u>\$ 1,888,569</u>

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

	<u>2011</u>	<u>2010</u>
Fair value - Beginning of year	\$ 886,892	\$ 914,988
Trust distributions	(84,000)	(84,000)
Change in value of charitable lead annuity trust	<u>41,502</u>	<u>55,904</u>
Fair value - End of year	<u>\$ 844,394</u>	<u>\$ 886,892</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. Long-term promises to give are valued on a nonrecurring basis using the net present value of future cash flow discounted at a risk-free rate of return which is a level 3 input.

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

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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE E - ENDOWMENT (Continued)

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.

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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE E - ENDOWMENT (Continued)

Change in endowment net assets for the year ended December 31, 2011:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets				
January 1, 2011	\$ -	\$ 23,679	\$ 193,200	\$ 216,879
Plus:				
Trust distributions	-	5,040	78,960	84,000
Investment income	-	4,457	-	4,457
Less:				
Net loss on investments	-	(7,389)	-	(7,389)
Appropriation of endowment assets for expenditure	-	(16,952)	-	(16,952)
Endowment net assets				
December 31, 2011	<u>\$ -</u>	<u>\$ 8,835</u>	<u>\$ 272,160</u>	<u>\$ 280,995</u>

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

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>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>

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, 2011 or 2010.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE F - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2011 through July 13, 2012, 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, 2011, including the estimates inherent in the processing of financial statements.

In June 2012, the KCLS Foundation board approved the Tukwila Library Capital Campaign with funding up to \$1 million, contingent on the Library District reaching a suitable agreement with the City of Tukwila on the purchase of the land.