

KING COUNTY LIBRARY SYSTEM FOUNDATION

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2012 AND 2011

**King County
Library System
Foundation**

**Literacy
Learning
Libraries**

KING COUNTY LIBRARY SYSTEM FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

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INDEPENDENT AUDITOR'S REPORT

July 12, 2013

Board of Directors
King County Library System Foundation
Issaquah, Washington

We have audited the accompanying financial statements of King County Library System Foundation, which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to in the first paragraph of this letter present fairly, in all material respects, the financial position of King County Library System Foundation as of December 31, 2012 and 2011, 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.

Jacobson Jarvis & Co, PLLC

Jacobson Jarvis & Co, PLLC

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 761,094	\$ 797,246
Investments	979,971	813,281
Promises to give, current	335,095	68,763
Other receivables	13,929	16,589
Other current assets	<u>33,642</u>	<u>49,878</u>
Total Current Assets	2,123,731	1,745,757
Promises to Give, long term	32,800	-
Endowment Investments	390,672	280,995
Beneficial Interest in Charitable Lead Annuity Trust	<u>814,490</u>	<u>844,394</u>
Total Assets	<u>\$ 3,361,693</u>	<u>\$ 2,871,146</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 40,799	\$ 43,919
Grants payable to others	<u>39,159</u>	<u>25,400</u>
Total Liabilities	<u>79,958</u>	<u>69,319</u>
Net Assets		
Unrestricted	1,208,913	1,132,025
Unrestricted - board designated	<u>487,500</u>	<u>487,500</u>
Total Unrestricted Net Assets	1,696,413	1,619,525
Temporarily restricted	419,712	70,788
Permanently restricted	<u>1,165,610</u>	<u>1,111,514</u>
Total Net Assets	<u>3,281,735</u>	<u>2,801,827</u>
	<u>\$ 3,361,693</u>	<u>\$ 2,871,146</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support, Revenue, and Other Support								
In-kind contributions	\$ 339,304			\$ 339,304	\$ 326,781			\$ 326,781
Other contributions	207,767	\$ 384,147		591,914	220,241	\$ 279,049		499,290
Special events revenue, net of direct benefits provided of \$48,316 and \$16,358	157,316	-		157,316	117,125	-		117,125
Book sales	175,874	-		175,874	165,199	-		165,199
Investment income	20,404	6,107		26,511	19,287	4,457		23,744
Other revenues	34,060	-		34,060	34,567	-		34,567
Net assets released from purpose restrictions	68,706	(68,706)		-	337,205	(337,205)		-
Total Public Support, Revenue, and Other Support	<u>1,003,431</u>	<u>321,548</u>	<u>-</u>	<u>1,324,979</u>	<u>1,220,405</u>	<u>(53,699)</u>	<u>-</u>	<u>1,166,706</u>
Expenses								
Program services	518,121			518,121	636,223			636,223
Management and general	199,409			199,409	181,882			181,882
Fundraising	293,744			293,744	273,828			273,828
Total Expenses	<u>1,011,274</u>			<u>1,011,274</u>	<u>1,091,933</u>			<u>1,091,933</u>
Change in Net Assets Before Gains and Losses	<u>(7,843)</u>	<u>321,548</u>	<u>-</u>	<u>313,705</u>	<u>128,472</u>	<u>(53,699)</u>	<u>-</u>	<u>74,773</u>
Gains and Losses								
Net gain (loss) on investments	84,731	27,376		112,107	(36,852)	(7,389)		(44,241)
Change in value of charitable lead annuity trust	-	-	\$ 54,096	54,096	-	-	\$ 41,502	41,502
Inventory loss	-	-	-	-	(31,301)	-	-	(31,301)
Total Gains and Losses	<u>84,731</u>	<u>27,376</u>	<u>54,096</u>	<u>166,203</u>	<u>(68,153)</u>	<u>(7,389)</u>	<u>41,502</u>	<u>(34,040)</u>
Total Change in Net Assets	<u>76,888</u>	<u>348,924</u>	<u>54,096</u>	<u>479,908</u>	<u>60,319</u>	<u>(61,088)</u>	<u>41,502</u>	<u>40,733</u>
Net Assets – beginning 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>
Net Assets – end of year	<u>\$1,696,413</u>	<u>\$ 419,712</u>	<u>\$1,165,610</u>	<u>\$3,281,735</u>	<u>\$ 1,619,525</u>	<u>\$ 70,788</u>	<u>\$1,111,514</u>	<u>\$2,801,827</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012				2011			
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
In-kind staff	\$ 59,031	\$ 134,032	\$ 97,750	\$ 290,813	\$ 52,127	\$ 130,780	\$ 100,911	\$ 283,818
Supplies	248,742	221	2,035	250,998	247,578	654	3,390	251,622
Professional fees	1,079	17,893	127,544	146,516	61,381	14,931	90,507	166,819
Rentals and meetings	74,000	-	391	74,391	1,128	183	328	1,639
Grants to others	69,461	-	162	69,623	247,445	-	-	247,445
In-kind grants and supplies	18,788	14,945	16,178	49,911	22,875	13,673	15,538	52,086
Printing and postage	39,984	7,657	-	47,641	-	2	5,770	5,772
Special events	-	-	37,896	37,896	-	-	44,235	44,235
Miscellaneous	2,642	8,560	8,342	19,544	796	6,133	9,217	16,146
Investment and bank fees	-	15,189	3,446	18,635	-	14,638	2,985	17,623
Community events	4,394	912	-	5,306	2,893	888	947	4,728
Total Expenses	<u>\$ 518,121</u>	<u>\$ 199,409</u>	<u>\$ 293,744</u>	<u>\$1,011,274</u>	<u>\$ 636,223</u>	<u>\$ 181,882</u>	<u>\$ 273,828</u>	<u>\$1,091,933</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Cash received from donors	\$ 496,994	\$ 607,377
Cash received from book sales	178,534	163,451
Cash received from others	34,060	34,574
Cash received from interest	1,062	757
Cash paid to vendors	(621,789)	(519,723)
Grants paid to King County Library System	(47,042)	(232,079)
Grants paid to others	<u>(8,822)</u>	<u>(19,800)</u>
Net Cash Provided by Operating Activities	<u>32,997</u>	<u>34,557</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	841,117	907,077
Purchases of investments	<u>(994,266)</u>	<u>(985,486)</u>
Net Cash Used by Investing Activities	<u>(153,149)</u>	<u>(78,409)</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	(36,152)	40,148
Cash and Cash Equivalents - beginning of year	<u>797,246</u>	<u>757,098</u>
Cash and Cash Equivalents - end of year	<u>\$ 761,094</u>	<u>\$ 797,246</u>
Reconciliation of Change in Net Assets to Cash		
Flows from Operating Activities		
Change in net assets	\$ 479,908	\$ 40,733
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Net (gain) loss on investments	(112,107)	44,241
Change in value of charitable lead annuity trust	(54,096)	(41,502)
Inventory loss	-	31,301
Reinvested dividends	(25,449)	(22,987)
(Increase) decrease in:		
Promises to give	(299,132)	(16,273)
Other receivables	2,660	(1,748)
Inventory	-	7
Other current assets	16,236	(18,673)
Increase (decrease) in:		
Accounts payable	11,218	23,892
Grants payable to others	<u>13,759</u>	<u>(4,434)</u>
Net Cash Provided by Operating Activities	<u>\$ 32,997</u>	<u>\$ 34,557</u>

See notes to financial statements.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

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.

- Reading to and with young children is one of the most effective ways parents can support their children's brain development and early learning skills. In 2012, the KCLS Foundation continued to support Fiestas de Alfabetizacion, providing early literacy training to Spanish-speaking parents. Fiestas involved 2,713 parents and children in the series of workshops. The KCLS Foundation funded 1,345 books for the children.
- Facilitators lead Play and Learn groups that include Early Literacy activities for children and their parents or caregivers. In 2012, 115 sessions were held at the Foster, Woodmont and Kent Libraries and involved 2,640 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 then vote for a KCLS winner. The Foundation purchased books for class teams, which involved 378 students in 15 classrooms and 35 adults. Students held discussions in classrooms and participated in similar events with other schools, involving 116 people. The Foundation provided funding for the final program, which involved more than 100 participants who debated and voted for their choice of KCLS Newbery winner.
- The KCLS Foundation provided support for the Books for Babies program. Public health nurses and health department staff members delivered and presented 2,300 board books in 7 languages plus early literacy DVDs and reading tips to new mothers in low income areas of the library's service district.
- The KCLS Foundation provided funding for 200 Stories2Go! kits on 4 Library2Go vans. The majority of the visits were to in-home day care centers, offering caregivers and young children easy and consistent access to fun and interactive multi-media kits featuring picture books, music, and puppets on various topics (animals, numbers, etc.) for learning and enjoyment.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

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 – Dream Big, Read! - attracted 38,031 young readers and awarded 29,507 halfway prizes plus 24,365 final prizes for participants who reached their 1,000 minute goal. In addition to general support, the KCLS Foundation funded buses to bring 3,752 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 2011-2012, the Foundation provided 14,431 books to students who completed their 400-minute goal.
- The Global Reading Challenge combines great books and quiz questions in fun and fast-paced contests. In 2011-2012, 1,904 4th and 5th grade students on 272 teams from 53 schools in 13 school districts competed. The program involves students of all reading levels. The KCLS Foundation provides books for all team members.
- Students seeking help with homework can visit Study Zones in 35 KCLS libraries. In 2011-2012, 380 volunteers contributed 14,010 hours and tutored 10,479 students in Math, Science, Social Studies, Reading, and English.
- The KCLS Foundation funded 4 SAT Prep Classes and workbooks for 88 students in low-income areas.
- In 2012, 3,758 teens read 11,274 books in the Read 3, Get 1 Free program, offered January-August. For each set of 3 reviews, a teen selected a free book as a reward. The KCLS Foundation hosted a red carpet event and provided prizes for the Read.Film.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.

- The KCLS Foundation provided workbooks for Literacy Toward Citizenship class participants. 500 class sessions were presented to more than 2,750 immigrants seeking preparation for the US Naturalization test.
- KCLS Foundation and King County Library System continued with Year 2 of Take Time to READ, a 3-year initiative to help adults encounter reading opportunities and materials in unexpected places.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Quick Reads Shelves were placed in 39 hospitals, social service agencies, and numerous community venues and stocked with materials. Thousands of residents enjoyed 266 4' x 6' Book Cover Posters in 14 communities and used the QR code on the posters to connect to the KCLS catalog. Nearly 250 Facebook users provided online book reviews. Thousands of Gift of Time cards were distributed. Ads on Metro buses and KCLS shipping trucks reminded tens of thousands of residents to read. Radio spots featured Seattle Mariners players talking about favorite books on ESPN and Seattle Met Magazine ads reached readers in July, August, and September. New in 2012: Quick Reads Shelves and Chairs were placed on Concourse B and visited by thousands of travelers at the SeaTac Airport, with signage throughout the airport and on the major walkway to the terminal.

- Take Time to READ garnered national awards and attention, including:
 - > Urban Libraries Council award as a Top Innovator in positioning the library for promoting recreational reading.
 - > The John Cotton Dana award for outstanding strategic communication presented by the American Library Association, the American Libraries Magazine and EBSCO Publishing.
- The KCLS Foundation welcomed more than 1,000 visitors to special events following remodeling at the Auburn and Enumclaw Libraries and to preview parties for the new Newcastle and Duvall Libraries.
- 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 provided funding in support of KCLS participation in Northwest Bookfest, a two-day festival in Kirkland that attracted 2,600 participants and featured authors, workshops, and programs.
- 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 5 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 Grand Hyatt in Bellevue, welcomed 500 guests and featured speaker and best-selling author Lee Child, emcee Nancy Pearl, and 30 local authors. The Gala also showcases the library's programs, buildings and services.
- The KCLS Foundation participated in planning for a new KCLS year-long program series, A Place at the Table: Inspiring Cooks, Nourishing Communities. The series will debut in 2013 with a focus on cooking, nutrition, locally produced food, healthy eating and, of course, books about food. KCLS libraries will collect non-perishable food donations for delivery to area food banks.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

- The KCLS Foundation launched a campaign to raise \$1 million to create a Community Mosaic (a performance space, gathering place, community living room, and learning hub) in the new Tukwila Library. Known as the Ellis Island of the Northwest and home to the most diverse school district in the United States, Tukwila is a unique international community. The Community Mosaic open space will be a stage for cultural programs, site for technology training, and venue for civic gatherings, festivals, and numerous activities.

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, 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 of unrestricted net assets for operating reserves and specific programs as of December 31, 2012 and 2011, respectively.

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>2012</u>	<u>2011</u>
Tukwila Community Mosaic (Tukwila Capital Campaign)	\$ 191,965	\$ -
Bothell Community Library	150,000	-
Early Literacy and Children's Programs	40,077	14,400
Take Time To Read	19,575	21,195
Children's Programming	-	20,000
Library2Go!	8,853	3,443
Read Me a Story	4,500	4,500
Community Leaders	2,655	3,404
Other Programs	2,087	3,087
Library Preview Parties	-	759
	<u>\$ 419,712</u>	<u>\$ 70,788</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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

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 bear interest ranging from 0.2% to 0.4% and have original maturities of 12 months, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements. 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, 2012 and 2011, 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.

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>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 58,674	\$ 54,801
Equities	1,032,003	759,368
Bonds	279,966	280,107
	<u>\$ 1,370,643</u>	<u>\$ 1,094,276</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

In 2011, inventory included 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. The inventory balance at December 31, 2012 was zero.

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.

Unconditional promises to give at December 31, 2012 and 2011 are due as follows:

	<u>2012</u>	<u>2011</u>
Receivable in less than one year	\$ 335,095	\$ 68,763
Receivable in one to five years	<u>32,800</u>	<u>-</u>
	<u>\$ 367,895</u>	<u>\$ 68,763</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, 2012 or 2011.

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 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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

Reclassifications

Certain accounts in the December 31, 2011 Statements of Cash Flows have been reclassified for comparative purposes to conform with the presentation in the current year Statements of Cash Flows. These reclassifications had no effect on the net assets or change in net assets as of or for the year ended December 31, 2011.

NOTE B - GRANTS PAYABLE

Grants payable consist of the following at December 31,	<u>2012</u>	<u>2011</u>
Payable to King County Library System for library programs	\$ 30,409	\$ 24,100
Grants to scholarship recipients	8,750	1,300
	<u>\$ 39,159</u>	<u>\$ 25,400</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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE C - CHARITABLE LEAD ANNUITY TRUST (Continued)

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, 2012				
Equities	\$ 1,032,003	\$ -	\$ -	\$ 1,032,003
Bonds	279,966	-	-	279,966
Charitable lead annuity trust	-	-	814,490	814,490
Total	<u>\$ 1,311,969</u>	<u>\$ -</u>	<u>\$ 814,490</u>	<u>\$ 2,126,459</u>
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>

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

	2012	2011
Fair value - beginning of year	\$ 844,394	\$ 886,892
Trust distributions	(84,000)	(84,000)
Change in value of charitable lead annuity trust	<u>54,096</u>	<u>41,502</u>
Fair value - end of year	<u>\$ 814,490</u>	<u>\$ 844,394</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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

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.

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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE E - ENDOWMENT (Continued)

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, 2012:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets				
January 1, 2012	\$ -	\$ 8,835	\$ 272,160	\$ 280,995
Plus:				
Trust distributions	-	3,360	80,640	84,000
Investment income	-	6,107	-	6,107
Net gain on investments	-	27,376	-	27,376
Less:				
Appropriation of endowment assets for expenditure	-	(7,806)	-	(7,806)
Endowment net assets				
December 31, 2012	<u>\$ -</u>	<u>\$ 37,872</u>	<u>\$ 352,800</u>	<u>\$ 390,672</u>

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>

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE E - ENDOWMENT (Continued)

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, 2012 or 2011.

NOTE F - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2012 through July 12, 2013, 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, 2012, including the estimates inherent in the processing of financial statements.