

KING COUNTY LIBRARY SYSTEM FOUNDATION

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2013 AND 2012

King County
Library System
Foundation

Literacy
Learning
Libraries

KING COUNTY LIBRARY SYSTEM FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	2
STATEMENTS OF FINANCIAL POSITION December 31, 2013 and 2012	4
STATEMENTS OF ACTIVITIES Years ended December 31, 2013 and 2012	5
STATEMENTS OF FUNCTIONAL EXPENSES Years ended December 31, 2013 and 2012	6
STATEMENTS OF CASH FLOWS Years ended December 31, 2013 and 2012	7
NOTES TO FINANCIAL STATEMENTS	8 - 18

INDEPENDENT AUDITOR'S REPORT

July 11, 2014

Board of Directors
King County Library System Foundation
Issaquah, Washington

We have audited the accompanying financial statements of King County Library System Foundation, a nonprofit corporation, which comprise the statements of financial position as of December 31, 2013 and 2012, 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, 2013 and 2012, 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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 1,021,711	\$ 761,094
Investments	1,343,812	979,971
Current promises to give, net	105,062	335,095
Other receivables	30,485	13,929
Other current assets	<u>15,500</u>	<u>33,642</u>
Total Current Assets	2,516,570	2,123,731
Long-term Promises to Give, net	10,586	32,800
Endowment Investments	539,776	390,672
Beneficial Interest in Charitable Lead Annuity Trust	<u>727,799</u>	<u>814,490</u>
Total Assets	<u>\$ 3,794,731</u>	<u>\$ 3,361,693</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 35,343	\$ 40,799
Grants payable to others	<u>209,472</u>	<u>39,159</u>
Total Liabilities	<u>244,815</u>	<u>79,958</u>
Net Assets		
Unrestricted	1,336,077	1,208,913
Unrestricted - board-designated	<u>540,000</u>	<u>487,500</u>
Total Unrestricted Net Assets	1,876,077	1,696,413
Temporarily restricted	510,920	419,712
Permanently restricted	<u>1,162,919</u>	<u>1,165,610</u>
Total Net Assets	<u>3,549,916</u>	<u>3,281,735</u>
	<u>\$ 3,794,731</u>	<u>\$ 3,361,693</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support, Revenue, and Other Support								
In-kind contributions	\$ 358,657			\$ 358,657	\$ 339,304			\$ 339,304
Other contributions	167,315	\$ 338,231		505,546	207,767	\$ 384,147		591,914
Special events revenue, less the costs of direct benefits to donors of \$52,722 and \$48,316	203,715	-		203,715	157,316	-		157,316
Book sales	169,254	-		169,254	175,874	-		175,874
Investment income	33,355	11,463		44,818	20,404	6,107		26,511
Other revenues	31,711	-		31,711	34,060	-		34,060
Net assets released from purpose restrictions	323,861	(323,861)	\$ -	-	68,706	(68,706)	\$ -	-
Total Public Support, Revenue, and Other Support	<u>1,287,868</u>	<u>25,833</u>	<u>-</u>	<u>1,313,701</u>	<u>1,003,431</u>	<u>321,548</u>	<u>-</u>	<u>1,324,979</u>
Expenses								
Program services	797,061			797,061	518,121			518,121
Management and general	229,150			229,150	192,373			192,373
Fundraising	267,362			267,362	300,780			300,780
Total Expenses	<u>1,293,573</u>	<u>-</u>	<u>-</u>	<u>1,293,573</u>	<u>1,011,274</u>	<u>-</u>	<u>-</u>	<u>1,011,274</u>
Change in Net Assets Before Gains and Losses	<u>(5,705)</u>	<u>25,833</u>	<u>-</u>	<u>20,128</u>	<u>(7,843)</u>	<u>321,548</u>	<u>-</u>	<u>313,705</u>
Gains and Losses								
Net gain on investments	185,369	65,375		250,744	84,731	27,376		112,107
Change in value of charitable lead annuity trust	-	-	(2,691)	(2,691)	-	-	54,096	54,096
Total Gains and Losses	<u>185,369</u>	<u>65,375</u>	<u>(2,691)</u>	<u>248,053</u>	<u>84,731</u>	<u>27,376</u>	<u>54,096</u>	<u>166,203</u>
Total Change in Net Assets	179,664	91,208	(2,691)	268,181	76,888	348,924	54,096	479,908
Net Assets – beginning 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>
Net Assets – end of year	<u>\$1,876,077</u>	<u>\$ 510,920</u>	<u>\$1,162,919</u>	<u>\$3,549,916</u>	<u>\$ 1,696,413</u>	<u>\$ 419,712</u>	<u>\$1,165,610</u>	<u>\$3,281,735</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013				2012			
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
Grants to others	\$ 395,007	\$ -	\$ -	\$ 395,007	\$ 69,461	\$ -	\$ 162	\$ 69,623
In-kind staff	66,319	146,866	113,949	327,134	59,031	134,032	97,750	290,813
Professional fees	29,676	40,554	85,437	155,667	1,079	17,893	127,544	146,516
Supplies	134,937	927	1,794	137,658	248,742	221	2,035	250,998
Rentals and meetings	80,023	205	517	80,745	74,000	-	391	74,391
Printing and postage	54,942	1,443	8,811	65,196	39,984	621	7,036	47,641
In-kind grants and supplies	26,322	12,494	12,282	51,098	18,788	14,945	16,178	49,911
Special events	-	-	37,260	37,260	-	-	37,896	37,896
Investment and bank fees	-	16,078	4,239	20,317	-	15,189	3,446	18,635
Miscellaneous	5,351	10,061	2,327	17,739	2,642	8,560	8,342	19,544
Community events	4,484	522	746	5,752	4,394	912	-	5,306
Total Expenses	<u>\$ 797,061</u>	<u>\$ 229,150</u>	<u>\$ 267,362</u>	<u>\$1,293,573</u>	<u>\$ 518,121</u>	<u>\$ 192,373</u>	<u>\$ 300,780</u>	<u>\$1,011,274</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities		
Cash received from donors	\$ 1,014,230	\$ 496,994
Cash received from book sales	152,698	178,534
Cash received from others	31,711	34,060
Cash received from interest	1,332	1,062
Cash paid to vendors	(564,140)	(621,789)
Grants paid to King County Library System	(210,228)	(47,042)
Grants paid to others	<u>(14,466)</u>	<u>(8,822)</u>
Net Cash Provided by Operating Activities	<u>411,137</u>	<u>32,997</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	1,576,992	841,117
Purchases of investments	<u>(1,811,512)</u>	<u>(994,266)</u>
Net Cash Used by Investing Activities	<u>(234,520)</u>	<u>(153,149)</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	260,617	(36,152)
Cash and Cash Equivalents - beginning of year	<u>761,094</u>	<u>797,246</u>
Cash and Cash Equivalents - end of year	<u>\$ 1,021,711</u>	<u>\$ 761,094</u>
Reconciliation of Change in Net Assets to Cash		
Flows from Operating Activities		
Change in net assets	\$ 268,181	\$ 479,908
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Net gain on investments	(250,744)	(112,107)
Change in value of charitable lead annuity trust	2,691	(54,096)
Reinvested dividends	(43,486)	(25,449)
Decrease (increase) in:		
Promises to give	252,247	(299,132)
Other receivables	(16,556)	2,660
Other current assets	18,142	16,236
Increase in:		
Accounts payable	10,349	11,218
Grants payable to others	<u>170,313</u>	<u>13,759</u>
Net Cash Provided by Operating Activities	<u>\$ 411,137</u>	<u>\$ 32,997</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

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. 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 2013, the KCLS Foundation continued to support *Fiestas de Alfabetizacion* providing early literacy training to Spanish-speaking parents. Fiestas involved 2,695 parents and children in the series of workshops. The KCLS Foundation funded 1,237 books for the children.
- Play and Learn groups are facilitator-led Early Literacy programs for children and their parents or caregivers. In 2013, 141 sessions were held at the Auburn, Foster, Woodmont and Kent Libraries. More than 6,000 participated.

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.

- With support from the KCLS Foundation, more than 55,000 young readers participated in 2013's popular Summer Reading Program – Dig Into Reading. The KCLS Foundation support included funding for buses to bring nearly 4,000 summer school students to libraries for summer reading programs and activities.
- The Global Reading Challenge combines great books and quiz questions in fun and fast-paced contests. In 2013, more than 2,000 4th and 5th grade students from 286 teams representing 56 schools in 18 school districts competed. The program involves students of all reading levels. The KCLS Foundation provides 10 titles to each student participating, as well as funding for an appearance by an author and the grand challenge festivities.
- Students seeking help with homework visited Study Zones sessions in 40 KCLS libraries. In 2013, more than 7,200 volunteer hours were logged and nearly 9,500 students received free tutoring in subjects ranging from Algebra, to English Literature to U.S. History.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

- The KCLS Foundation funded 30 SAT Prep Classes throughout the service area for students interested in taking the SAT as part of their college application process. Students who participated in the six-week program raised their scores an average of 175 points.

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 funding via a grant from the Paul G. Allen Family Foundation for Let's Read! – a summer program designed to engage children and communities often not served by traditional outreach efforts. Programs were held in 61 different sites including food banks, YMCA day camps and community centers. More than 8,500 people participated and 125 library cards were registered to new library patrons.
- The KCLS Foundation provided materials to the 398 students who participated in one of the Literacy Toward Citizenship classes. Sessions were presented at 15 of the KCLS libraries to nearly 500 participants. More than 100 people who participated reported passing their U.S. Naturalization test in 2013 after taking this class.
- The Take Time to READ initiative received support from the KCLS Foundation for the third year. The award-winning Take Time to Read Program inspires adults to take time out for reading by encountering reading opportunities and materials in unexpected places. Quick Reads Shelves were stocked with materials and placed in dozens of hospitals, food banks, YMCAs, the Department of Motor Vehicles, and numerous community venues. Additionally, Quick Read Shelves and Chairs were enjoyed by thousands of local and visiting travelers at the KCLS kiosk in the SeaTac airport.
- In September 2013, a special preview event was hosted by the KCLS Foundation to celebrate the opening of the new Federal Way 320th Library. The new 15,000 square foot library replaces a smaller 1960s building and features an expanded Children's Area and Teen Zone, three study rooms, a quiet study room and community meeting room. The building was designed with several green features: windows that maximize daylight, radiant heating, low-flow fixtures and a rain garden.
- The KCLS Foundation presented awards to members of the Friends of the Library groups and hosted more than 130 guests at the library's annual Friends of the Library recognition event. The 2013 event "Friends Around the Table" included food-related workshops by Philip Lee of Readers to Eaters, KCLS librarian Michele Drovdaahl on cookbooks and food memoirs, Marilyn Walls from Puget Consumer Co-op on healthy holiday eating and food historian Tames Alan on *Dining at Downton, A Trial by Fork*.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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 seven scholarships for KCLS staff members seeking their masters' degrees in library and information science.
- The KCLS Foundation's annual Literary Lions Gala raised more than \$230,000 with more than 500 guests participating in the festivities. The event was held at the Hyatt Regency Bellevue and featured 30 local authors. Everyone's favorite librarian Nancy Pearl acted as emcee and the keynote speaker was best-selling author Dennis Lehane.
- A Place at the Table: Inspiring Cooks, Nourishing Communities - was the theme of a year long series of adult programming which was supported by the KCLS Foundation. The series debuted in March 2013 and focused on cooking, nutrition, locally produced food, healthy eating and, of course, books about food. More than 4,000 patrons participated in the programs and 18% reported it was their first time attending a library event. Additionally, KCLS libraries collected non-perishable food donations in the community libraries. A total of 30,808 pounds of food, equaling more than 20,538 meals was collected and donated to KCLS' partners Hopelink and Food Lifeline.
- The KCLS Foundation continued the 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:

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unrestricted net assets are available without restriction for support of the KCLS Foundation's operations. The Board of Directors designated \$540,000 and \$487,500 of unrestricted net assets for operating reserves and specific programs as of December 31, 2013 and 2012, 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>2013</u>	<u>2012</u>
Tukwila Community Mosaic (Tukwila Capital Campaign)	\$ 287,426	\$ 191,965
Bothell Community Library	-	150,000
Early Literacy and Children's Programs	105,181	40,077
Take Time To Read	-	19,575
Let's Read Program	88,149	-
Library2Go!	9,006	8,853
Read Me a Story	4,500	4,500
Community Leaders	2,206	2,655
Other Programs	14,452	2,087
	<u>\$ 510,920</u>	<u>\$ 419,712</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, money market funds, and certificates of deposit. Certificates of deposit bear interest ranging from 0.23% to 0.75% 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, 2013 and 2012, 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:

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 60,206	\$ 58,674
Equities	1,425,977	1,032,003
Bonds	<u>397,405</u>	<u>279,966</u>
	<u>\$ 1,883,588</u>	<u>\$ 1,370,643</u>

It is the policy of the Foundation that contracts for professional services including investments managers will be evaluated every 7 years. In 2013, the Foundation changed investment managers in accordance with this policy review. In conjunction with this transition, the investment portfolio was liquidated and reinvested, leading to a significant increase in year-over-year cash flows from investing activities as presented in the Statements of Cash Flows. Also in 2013, the board approved certain changes to the KCLS Foundation investment policy. This included an amendment to increase the maximum percentage of alternative investments allowed in the portfolio asset allocation from 5% to 35%. The change was made to allow the Foundation more flexibility to mitigate the portfolio's risk exposure to market volatility. All alternative investments are in the form of publicly traded mutual funds.

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.

Receivables

Receivables are stated at their net realizable value.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

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. An allowance for uncollectible accounts of \$2,500 for the years ended December 31, 2013 and 2012 is estimated based on management's periodic evaluation of loss experience, and management's analysis of specific amounts due. 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, 2013 and 2012 are due as follows:

	<u>2013</u>	<u>2012</u>
Receivable in less than one year	\$ 105,062	\$ 335,095
Receivable in one to five years	<u>10,586</u>	<u>32,800</u>
	<u>\$ 115,648</u>	<u>\$ 367,895</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, 2013 or 2012.

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. 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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 amounts in the 2012 Statement of Functional Expenses have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications have no effect on the total net assets or total change in net assets as of or for the year ended December 31, 2012.

NOTE B - GRANTS PAYABLE

Grants payable consist of the following at December 31,

	<u>2013</u>	<u>2012</u>
Payable to King County Library System for library programs	\$ 198,422	\$ 30,409
Grants to scholarship recipients	<u>11,050</u>	<u>8,750</u>
	<u>\$ 209,472</u>	<u>\$ 39,159</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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

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, 2013				
Equities	\$ 1,425,977	\$ -	\$ -	\$ 1,425,977
Bonds	397,405	-	-	397,405
Charitable lead annuity trust	-	-	727,799	727,799
Total	<u>\$ 1,823,382</u>	<u>\$ -</u>	<u>\$ 727,799</u>	<u>\$ 2,551,181</u>
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>

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

	2013	2012
Fair value - beginning of year	\$ 814,490	\$ 844,394
Trust distributions	(84,000)	(84,000)
Change in value of charitable lead annuity trust	<u>(2,691)</u>	<u>54,096</u>
Fair value - end of year	<u>\$ 727,799</u>	<u>\$ 814,490</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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE E - ENDOWMENT (Continued)

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, 2013 AND 2012

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, 2013:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets				
January 1, 2013	\$ -	\$ 37,872	\$ 352,800	\$ 390,672
Plus:				
Trust distributions	-	1,680	82,320	84,000
Investment income	-	11,463	-	11,463
Net gain on investments	-	65,375	-	65,375
Less:				
Appropriation of endowment assets for expenditure	-	(11,734)	-	(11,734)
Endowment net assets December 31, 2013	<u>\$ -</u>	<u>\$ 104,656</u>	<u>\$ 435,120</u>	<u>\$ 539,776</u>

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>

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

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, 2013 or 2012.

NOTE F - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2013 through July 11, 2014, 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, 2013, including the estimates inherent in the processing of financial statements.