

KING COUNTY LIBRARY SYSTEM FOUNDATION

FINANCIAL STATEMENTS  
With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2014 AND 2013



KING COUNTY LIBRARY SYSTEM FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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INDEPENDENT AUDITOR'S REPORT

July 10, 2015

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, 2014 and 2013, 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, 2014 and 2013, 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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 710,866	\$ 1,021,711
Investments	1,436,941	1,343,812
Current promises to give, net	50,792	105,062
Other receivables	38,322	30,485
Other current assets	20,498	15,500
Total Current Assets	<u>2,257,419</u>	<u>2,516,570</u>
Long-term Promises to Give, net	-	10,586
Endowment Investments	631,900	539,776
Beneficial Interest in Charitable Lead Annuity Trust	654,347	727,799
Total Assets	<u>\$ 3,543,666</u>	<u>\$ 3,794,731</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 32,512	\$ 35,303
Programs payable	76,227	209,512
Total Liabilities	<u>108,739</u>	<u>244,815</u>
Net Assets		
Unrestricted	1,362,945	1,336,077
Unrestricted - board-designated	747,000	540,000
Total Unrestricted Net Assets	<u>2,109,945</u>	<u>1,876,077</u>
Temporarily restricted	151,515	510,920
Permanently restricted	1,173,467	1,162,919
Total Net Assets	<u>3,434,927</u>	<u>3,549,916</u>
	<u>\$ 3,543,666</u>	<u>\$ 3,794,731</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support, Revenue, and Other Support								
In-kind contributions	\$ 415,172			\$ 415,172	\$ 358,657			\$ 358,657
Other contributions	155,305	\$ 137,987		293,292	167,315	\$ 338,231		505,546
Special events revenue, less the costs of direct benefits to donors of \$79,730 and \$52,722	214,503	-		214,503	203,715	-		203,715
Book sales	227,134	-		227,134	169,254	-		169,254
Investment income	31,652	7,256		38,908	33,355	11,463		44,818
Other revenues	31,852	-		31,852	31,711	-		31,711
Net assets released from purpose restrictions	525,707	(525,707)	\$ -	-	323,861	(323,861)	\$ -	-
Total Public Support, Revenue, and Other Support	1,601,325	(380,464)	-	1,220,861	1,287,868	25,833	-	1,313,701
Expenses								
Program services	878,320			878,320	797,061			797,061
Management and general	199,861			199,861	229,150			229,150
Fundraising	341,804			341,804	267,362			267,362
Total Expenses	1,419,985			1,419,985	1,293,573			1,293,573
Change in Net Assets Before Gains and Losses	181,340	(380,464)	-	(199,124)	(5,705)	25,833	-	20,128
Gains and Losses								
Net gain on investments	52,528	21,059		73,587	185,369	65,375		250,744
Change in value of charitable lead annuity trust	-	-	10,548	10,548	-	-	(2,691)	(2,691)
Total Gains and Losses	52,528	21,059	10,548	84,135	185,369	65,375	(2,691)	248,053
Total Change in Net Assets	233,868	(359,405)	10,548	(114,989)	179,664	91,208	(2,691)	268,181
Net Assets – beginning of year	1,876,077	510,920	1,162,919	3,549,916	1,696,413	419,712	1,165,610	3,281,735
Net Assets – end of year	\$2,109,945	\$ 151,515	\$1,173,467	\$3,434,927	\$ 1,876,077	\$ 510,920	\$1,162,919	\$3,549,916

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014				2013			
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
Program expenses and materials	\$ 792,490	\$ -	\$ -	\$ 792,490	\$ 669,393	\$ -	\$ -	\$ 669,393
In-kind staff	49,903	113,160	130,839	293,902	66,319	146,866	113,949	327,134
Professional fees	28,731	25,661	86,164	140,556	29,676	40,554	70,364	140,594
Printing, mail house services and postage	-	-	60,521	60,521	-	1,443	23,884	25,327
In-kind office support	5,409	29,482	23,184	58,075	26,322	12,494	12,282	51,098
Special events	-	-	29,616	29,616	-	-	37,260	37,260
Miscellaneous	1,787	11,670	11,480	24,937	5,351	11,715	5,384	22,450
Investment and bank fees	-	19,888	-	19,888	-	16,078	4,239	20,317
<b>Total Expenses</b>	<b>\$ 878,320</b>	<b>\$ 199,861</b>	<b>\$ 341,804</b>	<b>\$ 1,419,985</b>	<b>\$ 797,061</b>	<b>\$ 229,150</b>	<b>\$ 267,362</b>	<b>\$ 1,293,573</b>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from donors	\$ 715,576	\$ 1,014,230
Cash received from book sales	219,297	152,698
Cash received from others	31,852	31,711
Cash received from interest	1,441	1,332
Cash paid to vendors	(582,413)	(559,355)
Cash paid to KCLS	(685,351)	(215,013)
Grants paid to others	<u>(21,048)</u>	<u>(14,466)</u>
Net Cash (Used) Provided by Operating Activities	<u>(320,646)</u>	<u>411,137</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	987,874	1,576,992
Purchases of investments	<u>(1,062,073)</u>	<u>(1,811,512)</u>
Net Cash Used by Investing Activities	<u>(74,199)</u>	<u>(234,520)</u>
<b>Cash Flows Provided by Financing Activities</b>		
Cash received from beneficial interest in charitable lead annuity trust	<u>84,000</u>	<u>84,000</u>
Change in Cash and Cash Equivalents	(310,845)	260,617
Cash and Cash Equivalents - beginning of year	<u>1,021,711</u>	<u>761,094</u>
Cash and Cash Equivalents - end of year	<u>\$ 710,866</u>	<u>\$ 1,021,711</u>
<b>Reconciliation of Change in Net Assets to Cash</b>		
<b>Flows from Operating Activities</b>		
Change in net assets	\$ (114,989)	\$ 268,181
Adjustments to reconcile change in net assets to cash (used) provided by operating activities:		
Net gain on investments	(73,587)	(250,744)
Change in value of charitable lead annuity trust	(10,548)	2,691
Reinvested dividends	(37,467)	(43,486)
Decrease (increase) in:		
Promises to give	64,856	252,247
Other receivables	(7,837)	(16,556)
Other current assets	(4,998)	18,142
Increase (decrease) in:		
Accounts payable	(2,791)	15,134
Programs payable	<u>(133,285)</u>	<u>165,528</u>
Net Cash (Used) Provided by Operating Activities	<u>\$ (320,646)</u>	<u>\$ 411,137</u>



# KING COUNTY LIBRARY SYSTEM FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

### NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The mission of the King County Library System (KCLS or the Library) is to provide free, open, and equal access to ideas and information to all members of the community. The King County Library System Foundation (KCLS Foundation) provides funding for initiatives that address community needs, ensure that the library system is able to realize its mission, and encourage our public library system to remain vibrant, relevant and central in the lives of residents. For more information, visit [www.kclsfoundation.org](http://www.kclsfoundation.org).

#### **Programs executed by the KCLS Foundation or receiving significant support in 2014 include:**

\$400,000 supported the \$1,000,000 capital campaign for the Tukwila Library Community Mosaic. The mosaic will be a community living room and the hub of activity in the new Tukwila Library. Home to the most diverse zip code in the United States, the Tukwila community will benefit from having a free and open space located within the walls of the library. It will be available for cultural programs, technology and literacy training sessions, civic gatherings and festivals.

\$77,000 funded the Let's READ! program. This two-year pilot project engaged children and communities not served via the traditional outreach efforts of the King County Library System. Let's READ! programs were focused in the areas of greatest need - southeast, east and north King County. More than 20,000 children, teens and caregivers attended programs, more than double the initial goal. Even more impressive is the library's achievement in reaching families who had never attended a library program. More than 1,200 participants reported a Let's READ! event as their first library program.

\$51,600 helped expand the KCLS Summer Learning Program - Thinkology: The Study of Fun, which emphasized the importance of reading and learning. Programs aligned with the nation-wide educational focus on STREAM (science, technology, reading, engineering, art and math) skills development. Thanks to the support of the KCLS Foundation, every child who signed up received their own summer journal to track their reading and other activities. Additionally, the KCLS Foundation support provided transportation for summer school students to library programs.

\$50,300 was directed to expanding the SAT Prep Classes. More than 100 students completed the six week course which included two practice tests. The mean score improvement between the diagnostic test and the practice test was 86 points. The biggest average score gain was seen in the writing section (multiple choice only, not the essay); the average increase was 50 points. On both the critical reading and math sections, the average score improvement was 18 points.

# KING COUNTY LIBRARY SYSTEM FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

### NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

\$50,000 helped advance the library system's transition from traditional summer reading programs to more comprehensive summer learning programs in 2014. KCLS engaged a third party consultant to investigate the best practices in engaging students and mitigating the "summer slide." The summer slide is defined as the loss of reading and math skills kids typically experience during the summer recess. Because kids often lose as much as two months of math skills, a greater emphasis on science, math and engineering programs was recommended. Consequently, the KCLS' Thinkology program with its STREAM curriculum was developed.

\$17,500 provided the Teen Reading program with the materials and incentives they needed to engage older children (tweens and teens) in summer learning activities. The result was an increase of 415% over 2013, with more than 6,900 teens served. All participants receive a log to record their hours of reading and/or library activities including: visiting a library, attending a library program, exploring one or more premium databases, introducing oneself to a library staff member, rating a book online, recommending a book to a friend, and by getting/having a library card. All participants were entered into a drawing for Samsung Galaxy Tablets and each library awarded one tablet to a local winner.

\$11,200 supported the continuation of the Global Reading Challenge (GRC). The GRC combines great books and quiz questions in fun and fast-paced content for 4th and 5th graders. Now in its 15th year, KCLS engaged more than 2,100 students representing 60 schools and 305 teams. The KCLS Foundation's support ensured that each participant received copies of all 10 titles selected for the challenge.

\$15,000 was awarded in scholarships to KCLS staff members pursuing an advanced degree. In support of KCLS' commitment to staff development, the KCLS Foundation offered scholarship assistance for those pursuing an advanced degree, including, but not limited to, a master's degree in library science. Scholarship award payments were made to eight different scholars following a competitive application and interview process. The scholarship awards ranged between \$500 and \$3,000.

\$13,000 funded KCLS' first MAKE series of workshops aimed at strengthening science and technology skills and fostering innovation and entrepreneurship. More than 4,500 people of all ages attended programs which included opportunities to design, build, create and collaborate on a number of projects such as 3D printing, book arts, Cosplay and robotics.

\$10,000 was directed to the KCLS year-long adult program series Start to Fitness, which drew nearly 5,000 participants, an 11% increase over the prior year's programming. For fitness inspiration, library attendees had stellar presentations from authors including endurance swimmer Lynne Cox, Daniel James Brown (*Boys in the Boat*), and the 2012 National Geographic Explorer of the Year, Jennifer Phar Davis.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The KCLS Foundation held the Literary Lions Gala in March 2014, engaging more than 600 attendees. Best-selling author and award-winning novelist Amy Tan was the event keynote speaker and Nancy Pearl served as the evening's emcee. The event was held at the Bellevue Hyatt Regency and featured local authors including David Laskin, Samantha Vamos and Tim Egan among others.

Federal income taxes

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.

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 \$747,000 and \$540,000 of unrestricted net assets for operating reserves and specific programs as of December 31, 2014 and 2013, 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>2014</u>	<u>2013</u>
Tukwila Community Mosaic (Tukwila Capital Campaign)	\$ -	\$ 287,426
Early Literacy and Children's Programs	112,780	105,181
Let's READ! Program	15,557	88,149
Teen Programming	16,383	-
Library2Go!	153	9,006
Read Me a Story	-	4,500
Community Leaders	1,230	2,206
Other Programs	<u>5,412</u>	<u>14,452</u>
	<u>\$ 151,515</u>	<u>\$ 510,920</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, 2014 AND 2013

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 0.23% to 0.35% 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, 2014 and 2013, 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>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 88,656	\$ 60,206
Equities	1,538,015	1,425,977
Bonds	442,170	397,405
	<u>\$ 2,068,841</u>	<u>\$ 1,883,588</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

It is the policy of the KCLS Foundation that contracts for professional services including investments managers will be evaluated every 7 years. In 2013, the KCLS Foundation changed investments 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 KCLS 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.

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, 2014 and 2013 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, 2014 and 2013 are due as follows:

	<u>2014</u>	<u>2013</u>
Receivable in less than one year	\$ 50,792	\$ 105,062
Receivable in one to five years	<u>-</u>	<u>10,586</u>
	<u>\$ 50,792</u>	<u>\$ 115,648</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, 2014 or 2013.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and in-kind office support.

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 2013 financial statements 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, 2013.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE B - RELATED PARTIES

The KCLS Foundation promotes literacy, learning, and libraries by providing support beyond public funding for initiatives and resources that enable the King County Library System to better serve the needs of the community. By its nature, the KCLS Foundation is related to the Library and has numerous transactions with it. In support of library programs and projects, the KCLS Foundation recognized expenses in the amounts of \$792,490 and \$669,393 related to amounts directly paid to the Library or to vendors on behalf of the Library for the years ended December 31, 2014 and 2013, respectively. Library in-kind staff and office support expenses were valued at \$351,977 and \$378,232 for the years ended December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, the KCLS Foundation had payables directly owed to the Library of \$99,214 and \$226,240, respectively.

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 per year over a fifteen-year period. In 2023, the remaining assets will be paid to the donor's surviving children. Assets received were recorded at fair value of \$1,260,000 on the date of the agreement, with a related discount of \$266,604 to net present value based on future cash flows. On an annual basis, 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, 2014				
Equities	\$ 1,538,015	\$ -	\$ -	\$ 1,538,015
Bonds	442,170	-	-	442,170
Charitable lead annuity trust	-	-	654,347	654,347
Total	<u>\$ 1,980,185</u>	<u>\$ -</u>	<u>\$ 654,347</u>	<u>\$ 2,634,532</u>
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>

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE D - FAIR VALUE MEASUREMENTS (Continued)

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

	<u>2014</u>	<u>2013</u>
Fair value - beginning of year	\$ 727,799	\$ 814,490
Trust distributions	(84,000)	(84,000)
Change in value of charitable lead annuity trust	<u>10,548</u>	<u>(2,691)</u>
Fair value - end of year	<u>\$ 654,347</u>	<u>\$ 727,799</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. The KCLS Foundation Board has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the KCLS Foundation classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets.

**Return Objectives and Risk Parameters**

The KCLS Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.



KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE E - ENDOWMENT (Continued)

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

The specific priorities ranked in order of importance are:

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

**Strategies Employed for Achieving Objectives**

The KCLS Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The KCLS Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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

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

Change in endowment net assets for the year ended December 31, 2014:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets				
January 1, 2014	\$ -	\$ 104,656	\$ 435,120	\$ 539,776
Plus:				
Trust distributions	-	-	84,000	84,000
Investment income	-	7,256	-	7,256
Net gain on investments	-	21,059	-	21,059
Less:				
Appropriation of endowment assets for expenditure	-	(20,191)	-	(20,191)
Endowment net assets				
December 31, 2014	<u>\$ -</u>	<u>\$ 112,780</u>	<u>\$ 519,120</u>	<u>\$ 631,900</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE E - ENDOWMENT (Continued)

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>

**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, 2014 or 2013.

NOTE F - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2014 through July 10, 2015, 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, 2014, including the estimates inherent in the processing of financial statements.