

KING COUNTY LIBRARY SYSTEM FOUNDATION

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2015 AND 2014



KING COUNTY LIBRARY SYSTEM FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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INDEPENDENT AUDITOR'S REPORT

July 8, 2016

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, 2015 and 2014, 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, 2015 and 2014, 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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 522,176	\$ 710,866
Investments	1,430,241	1,436,941
Current promises to give, net	105,250	48,292
Other receivables	16,138	40,822
Other current assets	41,112	20,498
	<u>2,114,917</u>	<u>2,257,419</u>
Total Current Assets		
Endowment Investments	677,769	631,900
Beneficial Interest in Charitable Lead Annuity Trust	591,202	654,347
	<u>1,269,971</u>	<u>1,317,147</u>
Total Assets	<u>\$ 3,383,888</u>	<u>\$ 3,543,666</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 73,087	\$ 32,512
Programs payable	-	76,227
	<u>73,087</u>	<u>108,739</u>
Total Liabilities		
Net Assets		
Unrestricted	1,127,664	1,362,945
Unrestricted - board-designated	765,825	747,000
	<u>1,893,489</u>	<u>2,109,945</u>
Total Unrestricted Net Assets		
Temporarily restricted	222,990	151,515
Permanently restricted	1,194,322	1,173,467
	<u>1,417,312</u>	<u>1,324,982</u>
Total Net Assets	<u>3,310,801</u>	<u>3,434,927</u>
	<u>\$ 3,383,888</u>	<u>\$ 3,543,666</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support, Revenue, and Other Support								
In-kind contributions	\$ 793,347			\$ 793,347	\$ 415,172			\$ 415,172
Other contributions	234,667	\$ 212,147	\$ -	446,814	155,305	\$ 137,987	\$ -	293,292
Special events revenue, less the costs of direct benefits to donors of \$63,927 and \$79,730	310,411	-		310,411	214,503	-		214,503
Book sales	202,228	-		202,228	227,134	-		227,134
Investment income	16,598	39,422		56,020	31,652	7,256		38,908
Other revenues	35,982	-		35,982	31,852	-		31,852
Net assets released from purpose restrictions	126,465	(126,465)	-	-	525,707	(525,707)	-	-
Total Public Support, Revenue, and Other Support	<u>1,719,698</u>	<u>125,104</u>	<u>-</u>	<u>1,844,802</u>	<u>1,601,325</u>	<u>(380,464)</u>	<u>-</u>	<u>1,220,861</u>
Expenses								
Program services	1,216,003			1,216,003	878,320			878,320
Management and general	205,663			205,663	199,861			199,861
Fundraising	479,214			479,214	341,804			341,804
Total Expenses	<u>1,900,880</u>	<u>-</u>	<u>-</u>	<u>1,900,880</u>	<u>1,419,985</u>	<u>-</u>	<u>-</u>	<u>1,419,985</u>
Change in Net Assets Before Gains and Losses	<u>(181,182)</u>	<u>125,104</u>	<u>-</u>	<u>(56,078)</u>	<u>181,340</u>	<u>(380,464)</u>	<u>-</u>	<u>(199,124)</u>
Gains and Losses								
Net (loss) gain on investments	(35,274)	(53,629)		(88,903)	52,528	21,059		73,587
Change in value of charitable lead annuity trust	-	-	20,855	20,855	-	-	10,548	10,548
Total Gains and Losses	<u>(35,274)</u>	<u>(53,629)</u>	<u>20,855</u>	<u>(68,048)</u>	<u>52,528</u>	<u>21,059</u>	<u>10,548</u>	<u>84,135</u>
Total Change in Net Assets	<u>(216,456)</u>	<u>71,475</u>	<u>20,855</u>	<u>(124,126)</u>	<u>233,868</u>	<u>(359,405)</u>	<u>10,548</u>	<u>(114,989)</u>
Net Assets – beginning of year	<u>2,109,945</u>	<u>151,515</u>	<u>1,173,467</u>	<u>3,434,927</u>	<u>1,876,077</u>	<u>510,920</u>	<u>1,162,919</u>	<u>3,549,916</u>
Net Assets – end of year	<u>\$1,893,489</u>	<u>\$ 222,990</u>	<u>\$1,194,322</u>	<u>\$3,310,801</u>	<u>\$ 2,109,945</u>	<u>\$ 151,515</u>	<u>\$1,173,467</u>	<u>\$3,434,927</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015				2014			
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
Program expenses and materials	\$1,119,421	\$ -	\$ 240	\$1,119,661	\$ 792,490	\$ -	\$ -	\$ 792,490
In-kind staff	57,239	138,296	164,839	360,374	49,903	113,160	130,839	293,902
Professional fees	29,656	26,465	87,400	143,521	28,731	25,661	86,164	140,556
In-kind office support	8,501	19,734	55,008	83,243	5,409	29,482	23,184	58,075
Special events	1,110	884	80,766	82,760	-	-	29,616	29,616
Printing, mail house services and postage	-	296	63,910	64,206	-	-	60,521	60,521
Investment and bank fees	-	14,440	9,583	24,023	-	19,888	-	19,888
Miscellaneous	76	5,548	17,468	23,092	1,787	11,670	11,480	24,937
Total Expenses	<u>\$1,216,003</u>	<u>\$ 205,663</u>	<u>\$ 479,214</u>	<u>\$1,900,880</u>	<u>\$ 878,320</u>	<u>\$ 199,861</u>	<u>\$ 341,804</u>	<u>\$1,419,985</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Cash received from donors	\$ 764,194	\$ 715,576
Cash received from book sales	226,912	219,297
Cash received from others	35,982	31,852
Cash received from interest	1,398	1,441
Cash paid to vendors	(628,781)	(582,413)
Cash paid to KCLS	(585,916)	(685,351)
Grants paid to others	<u>(13,029)</u>	<u>(21,048)</u>
Net Cash Used by Operating Activities	<u>(199,240)</u>	<u>(320,646)</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	519,303	987,874
Purchases of investments	<u>(592,753)</u>	<u>(1,062,073)</u>
Net Cash Used by Investing Activities	<u>(73,450)</u>	<u>(74,199)</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	(188,690)	(310,845)
Cash and Cash Equivalents - beginning of year	<u>710,866</u>	<u>1,021,711</u>
Cash and Cash Equivalents - end of year	<u>\$ 522,176</u>	<u>\$ 710,866</u>
Reconciliation of Change in Net Assets to Cash		
Flows from Operating Activities		
Change in net assets	\$ (124,126)	\$ (114,989)
Adjustments to reconcile change in net assets to cash used by operating activities:		
Net loss (gain) on investments	88,903	(73,587)
Change in value of charitable lead annuity trust	(20,855)	(10,548)
Reinvested dividends	(54,622)	(37,467)
(Increase) decrease in:		
Promises to give	(56,958)	64,856
Other receivables	24,684	(7,837)
Other current assets	(20,614)	(4,998)
Increase (decrease) in:		
Accounts payable	40,575	(2,791)
Programs payable	<u>(76,227)</u>	<u>(133,285)</u>
Net Cash Used by Operating Activities	<u>\$ (199,240)</u>	<u>\$ (320,646)</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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.

Programs executed by KCLS Foundation or receiving significant support in 2015 include:

\$325,000 supported the \$1,000,000 capital campaign for the Tukwila Library Community Mosaic (\$400,000 was paid in 2014). 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.

\$90,000 was granted to KCLS to ensure that Tutor.com will be available to students throughout the service area. Tutor.com is a free service to K-12 students, college students and even adult learners in both English and Spanish, providing equal access for everyone, regardless of their background. Tutor.com offers free one-on-one tutoring in a wide range of subjects, including AP course help, SAT/ACT prep, and foreign language tutoring. KCLS patrons can work one-on-one with a Tutor.com instructor every day from 2:00 p.m. to midnight, which means students can access the help they need even when our physical libraries are closed. The program emphasizes individual learning and is tailored to each student's specific needs. With the help of funding from KCLS Foundation, Tutor.com has grown into an invaluable resource for many KCLS patrons. In 2015, more than 50,000 live one-on-one sessions were conducted by KCLS with an average use of 4,400 users per month.

\$87,300 helped expand the KCLS Summer Learning Program which emphasized the importance of reading and learning. New in 2015 was a KCLS Foundation-supported regional kick-off event in Renton that engaged childcare providers, families, teens and kids of all ages. The event highlighted reading and summer library programs and included a spotlight on the importance of healthy eating for brain development. Thanks to the support of KCLS Foundation every child who signed up received their own summer journal to track their reading and other activities. Additionally, KCLS Foundation support provided transportation for summer school students to library programs.

\$29,000 funded programs for adults in the libraries as part of the Mind Matters series. Programs and events were offered throughout the system and engaged library patrons in everything from lectures on brain health, to organizational techniques, to meditation.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

\$44,000 funded the Let's READ! program. Initially a pilot project, this program was renewed in 2015 and engaged children and communities not served via the traditional outreach efforts of KCLS. 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 KCLS' 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.

\$55,000 was given to expand the market of e-book readers amongst library patrons. Readers of e-books say that they read twice as much as they did when physical books were their only option, yet research indicates that only 12% of e-book readers know that the public library is a resource for e-books (PEW Research Center). OverDrive Media Stations (OMS) are designed to encourage the discovery and use of e-books through a large, attractive touch screen interface and provide users with easy options for downloading material.

\$20,000 supported the pilot program INVENTational. In an effort to engage all KCLS staff in serving the community, employees were invited to present a project for funding. Each of the selected projects was patron-focused and received \$2,000 to \$20,000 in support. Awards went to projects such as Lego Mindstorm and Minecraft workshops both inside and outside the libraries, and ukulele programs in the west cluster. These programs were popular amongst the patrons and did effectively engage a broader group of staff in the development of programs across KCLS.

KCLS Foundation held the Literary Lions Gala in March 2015, raising \$365,000 in funds and engaging more than 700 attendees. Best-selling author and award-winning novelist Ann Patchett was the event keynote and Nancy Pearl served as the evening's emcee. The event was held at the Bellevue Hyatt Regency and featured local authors including Daniel James Brown, Jamie Ford, JA Jance, and Garth Stein among others.

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.

Reclassifications

Certain amounts in the December 31, 2014 financial statements have been reclassified for comparative purposes to conform with the presentation of the current year financial statements. These reclassifications had no effect on the net assets or change in net assets as of or for the year ended December 31, 2014.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of presentation

In accordance with financial accounting standards, 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 KCLS Foundation are classified as follows:

Unrestricted net assets are available without restriction for support of KCLS Foundation's operations. The Board of Directors designated \$765,825 and \$747,000 of unrestricted net assets for operating reserves and specific programs as of December 31, 2015 and 2014, 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>2015</u>	<u>2014</u>
Let's READ! Program	\$ 134,292	\$ 15,557
Early Literacy and Children's Programs	74,649	112,780
Teen Programming	9,153	16,383
Community Leaders	1,230	1,230
Other Programs	3,666	5,565
	<u>\$ 222,990</u>	<u>\$ 151,515</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 0.90% to 1.23% and have original maturities of 6 to 12 months, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements. 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. 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, 2015 and 2014, 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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 80,294	\$ 88,656
Equities	1,573,566	1,538,015
Bonds	454,150	442,170
	<u>\$ 2,108,010</u>	<u>\$ 2,068,841</u>

Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Receivables

Receivables are stated at their net realizable value.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Promises to give

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Promises to give of \$105,250 and \$48,292 are shown net of the allowance for uncollectible amounts of \$3,000 and \$2,500 at December 31, 2015 and 2014, respectively, and are due in less than one year.

Conditional promises to give are recognized when the conditions on which they depend are substantially met. KCLS Foundation had no conditional promises to give at December 31, 2015 or 2014.

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.

Bequests

KCLS Foundation has been named as beneficiary in certain bequests which are revocable during the donors' lifetime. Due to the uncertain nature of these intentions, KCLS Foundation has not recognized an asset or contribution for these gifts.

In-kind services and supplies

KCLS Foundation receives donated facilities, equipment, supplies, postage, printing and staff support from KCLS. KCLS Foundation also receives donated goods in support of the Summer Learning 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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions, such as the change in value of the charitable lead annuity trust, that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - RELATED PARTIES

KCLS Foundation promotes literacy, learning, and libraries by providing support beyond public funding for initiatives and resources that enable KCLS to better serve the needs of the community. By its nature, KCLS Foundation is related to the Library and has numerous transactions with it. In support of library programs and projects, KCLS Foundation recognized expenses in the amounts of \$1,119,661 and \$792,490 related to amounts directly paid to the Library or to vendors on behalf of the Library for the years ended December 31, 2015 and 2014, respectively. Library in-kind staff and office support expenses were valued at \$443,617 and \$351,977 for the years ended December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, KCLS Foundation had payables directly owed to the Library of \$35,743 and \$99,214, respectively.

NOTE C - CHARITABLE LEAD ANNUITY TRUST

In June 2008, KCLS Foundation received a beneficial interest in a charitable lead annuity trust. The donor funded a trust to make payments to 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, 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, 2015 AND 2014

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, 2015				
Equities	\$ 1,573,566	\$ -	\$ -	\$ 1,573,566
Bonds	454,150	-	-	454,150
Charitable lead annuity trust	-	-	591,202	591,202
Total	<u>\$ 2,027,716</u>	<u>\$ -</u>	<u>\$ 591,202</u>	<u>\$ 2,618,918</u>
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>

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

	2015	2014
Fair value - beginning of year	\$ 654,347	\$ 727,799
Trust distributions	(84,000)	(84,000)
Change in value of charitable lead annuity trust	20,855	10,548
Fair value - end of year	<u>\$ 591,202</u>	<u>\$ 654,347</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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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. 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, 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

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.

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 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

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

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

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE E - ENDOWMENT (Continued)

Strategies Employed for Achieving Objectives

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). 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.

Change in endowment net assets for the year ended December 31, 2015:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets				
January 1, 2015	\$ -	\$ 112,780	\$ 519,120	\$ 631,900
Plus:				
Trust distributions	-	-	84,000	84,000
Investment income	-	39,422	-	39,422
Net loss on investments	-	(53,629)	-	(53,629)
Less:				
Appropriation of endowment assets for expenditure	-	(23,924)	-	(23,924)
Endowment net assets				
December 31, 2015	<u>\$ -</u>	<u>\$ 74,649</u>	<u>\$ 603,120</u>	<u>\$ 677,769</u>

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, 2015 AND 2014

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 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, 2015 or 2014.

NOTE F - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2015 through July 8, 2016, 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, 2015, including the estimates inherent in the processing of financial statements.