

KING COUNTY LIBRARY SYSTEM FOUNDATION

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2017 AND 2016



KING COUNTY LIBRARY SYSTEM FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	2
STATEMENTS OF FINANCIAL POSITION December 31, 2017 and 2016	4
STATEMENTS OF ACTIVITIES Years ended December 31, 2017 and 2016	5
STATEMENTS OF FUNCTIONAL EXPENSES Years ended December 31, 2017 and 2016	6
STATEMENTS OF CASH FLOWS Years ended December 31, 2017 and 2016	7
NOTES TO FINANCIAL STATEMENTS	8 - 16

INDEPENDENT AUDITOR'S REPORT

July 13, 2018

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, 2017 and 2016, 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, 2017 and 2016, 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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 456,741	\$ 380,681
Investments	1,859,528	1,594,903
Promises to give, net	114,658	80,100
Other receivables	31,688	28,884
Other current assets	<u>12,500</u>	<u>11,250</u>
Total Current Assets	2,475,115	2,095,818
Endowment Investments	942,022	772,652
Beneficial Interest in Charitable Lead Annuity Trust	<u>440,283</u>	<u>521,482</u>
Total Assets	<u>\$ 3,857,420</u>	<u>\$ 3,389,952</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 34,078	\$ 43,067
Programs payable	<u>448,214</u>	<u>108,297</u>
Total Liabilities	<u>482,292</u>	<u>151,364</u>
Net Assets		
Unrestricted	971,462	1,143,149
Unrestricted - board-designated	<u>1,020,000</u>	<u>782,000</u>
Total Unrestricted Net Assets	1,991,462	1,925,149
Temporarily restricted	172,263	104,837
Permanently restricted	<u>1,211,403</u>	<u>1,208,602</u>
Total Net Assets	<u>3,375,128</u>	<u>3,238,588</u>
	<u>\$ 3,857,420</u>	<u>\$ 3,389,952</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support, Revenue, and Other Support								
In-kind contributions	\$ 787,543			\$ 787,543	\$ 794,105			\$ 794,105
Other contributions	292,941	\$ 266,707	\$ -	559,648	353,111	\$ 355,915	\$ -	709,026
Special events revenue, less the costs of direct benefits to donors of \$95,466 and \$97,810	320,368	-		320,368	240,304	-		240,304
Book sales	114,958	-		114,958	160,012	-		160,012
Investment income	41,596	24,072		65,668	37,084	14,076		51,160
Other revenues	35,100	-		35,100	34,300	-		34,300
Net assets released from purpose restrictions	318,274	(318,274)	-	-	514,285	(514,285)	-	-
Total Public Support, Revenue, and Other Support	<u>1,910,780</u>	<u>(27,495)</u>	<u>-</u>	<u>1,883,285</u>	<u>2,133,201</u>	<u>(144,294)</u>	<u>-</u>	<u>1,988,907</u>
Expenses								
Program services	1,400,409			1,400,409	1,492,761			1,492,761
Management and general	166,106			166,106	171,765			171,765
Fundraising	485,781			485,781	502,727			502,727
Total Expenses	<u>2,052,296</u>	<u>-</u>	<u>-</u>	<u>2,052,296</u>	<u>2,167,253</u>	<u>-</u>	<u>-</u>	<u>2,167,253</u>
Change in Net Assets Before Gains and Losses	<u>(141,516)</u>	<u>(27,495)</u>	<u>-</u>	<u>(169,011)</u>	<u>(34,052)</u>	<u>(144,294)</u>	<u>-</u>	<u>(178,346)</u>
Gains and Losses								
Net gain on investments	207,829	94,921		302,750	65,712	26,141		91,853
Change in value of charitable lead annuity trust	-	-	2,801	2,801	-	-	14,280	14,280
Total Gains and Losses	<u>207,829</u>	<u>94,921</u>	<u>2,801</u>	<u>305,551</u>	<u>65,712</u>	<u>26,141</u>	<u>14,280</u>	<u>106,133</u>
Total Change in Net Assets	66,313	67,426	2,801	136,540	31,660	(118,153)	14,280	(72,213)
Net Assets – beginning of year	<u>1,925,149</u>	<u>104,837</u>	<u>1,208,602</u>	<u>3,238,588</u>	<u>1,893,489</u>	<u>222,990</u>	<u>1,194,322</u>	<u>3,310,801</u>
Net Assets – end of year	<u>\$ 1,991,462</u>	<u>\$ 172,263</u>	<u>\$ 1,211,403</u>	<u>\$ 3,375,128</u>	<u>\$ 1,925,149</u>	<u>\$ 104,837</u>	<u>\$ 1,208,602</u>	<u>\$ 3,238,588</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017				2016			
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
Program expenses and materials	\$ 1,195,404	\$ -	\$ 13,371	\$ 1,208,775	\$ 1,278,382	\$ -	\$ 20,692	\$ 1,299,074
In-kind staff	152,505	114,041	213,020	479,566	140,223	110,498	186,125	436,846
Professional fees	38,474	6,412	100,123	145,009	43,677	21,656	79,466	144,799
Special events	-	4,146	87,694	91,840	1,905	1,066	95,657	98,628
In-kind office support	14,026	13,380	19,355	46,761	23,871	18,649	32,078	74,598
Investment and bank fees	-	19,106	13,602	32,708	-	15,041	10,946	25,987
Miscellaneous	-	9,009	16,605	25,614	4,703	4,855	13,499	23,057
Printing, mail house services and postage	-	12	22,011	22,023	-	-	64,264	64,264
Total Expenses	<u>\$ 1,400,409</u>	<u>\$ 166,106</u>	<u>\$ 485,781</u>	<u>\$ 2,052,296</u>	<u>\$ 1,492,761</u>	<u>\$ 171,765</u>	<u>\$ 502,727</u>	<u>\$ 2,167,253</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Cash received from donors	\$ 940,924	\$ 1,072,290
Cash received from book sales	112,154	147,266
Cash received from others	35,100	34,300
Cash received from interest	1,635	2,428
Cash paid to vendors	(414,173)	(569,607)
Cash paid to KCLS	(616,368)	(785,912)
Grants paid to others	-	(7,300)
Net Cash Provided (Used) by Operating Activities	<u>59,272</u>	<u>(106,535)</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	22,848	266,122
Purchases of investments	(90,060)	(385,082)
Net Cash Used by Investing Activities	<u>(67,212)</u>	<u>(118,960)</u>
Cash Flows Provided by Financing Activities		
Cash received from beneficial interest in charitable lead annuity trust	84,000	84,000
Change in Cash and Cash Equivalents	76,060	(141,495)
Cash and Cash Equivalents - beginning of year	380,681	522,176
Cash and Cash Equivalents - end of year	<u>\$ 456,741</u>	<u>\$ 380,681</u>
Reconciliation of Change in Net Assets to Cash		
Flows from Operating Activities		
Change in net assets	\$ 136,540	\$ (72,213)
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Net gain on investments	(302,750)	(91,853)
Change in value of charitable lead annuity trust	(2,801)	(14,280)
Reinvested dividends	(64,033)	(48,732)
(Increase) decrease in:		
Promises to give	(34,558)	25,150
Other receivables	(2,804)	(12,746)
Other current assets	(1,250)	29,862
(Decrease) increase in:		
Accounts payable	(8,989)	(30,020)
Programs payable	339,917	108,297
Net Cash Provided (Used) by Operating Activities	<u>\$ 59,272</u>	<u>\$ (106,535)</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The mission of the King County Library System (KCLS or the Library) is to inspire the people of King County to succeed through ideas, interaction and information. The King County Library System Foundation (KCLS Foundation) provides funding for initiatives that address community needs, ensures that the library system is able to realize its mission, and encourages 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 2017 include:

More than \$460,000 was granted to expand the ideaX programming. Launched in 2016 as a pilot, ideaX allows patrons of all ages to play, learn, and imagine via STEAM (science, technology, engineering, art and math) programs both in and outside the library, reaching families throughout the service area. Initially designed with materials and curriculum that could be transported to remote locations like day camps and apartment complexes, the KCLS Foundation support made it possible for KCLS to bring ideaX into at least one library per region. Funding in 2016 also supported the build out of the ideaX Makerspace which opened in April 2017 at the Bellevue Regional Library.

\$320,000 was given to the KCLS Summer Reading program, incentivizing children, teens, and adults to take time to read in the summer months. Nearly 50,000 children, teens and adults participated and reported a total of 152,511 million minutes of reading over the months of June, July, and August. As part of this program, transportation was provided for summer school students to library programs. Also as part of the Summer Reading program, Let's READ! efforts resulted in nearly 1,500 kids and teens participating in programs at parks, apartment complexes, and community centers. KCLS does this in an effort to engage children and communities not served via the traditional outreach efforts. Additionally, summer meals were provided in communities with a high number of free and reduced lunch students. 1,745 meals were served and more than 2,000 books were given at these special programs for children to start their own home library.

\$15,000 funded a Genealogy Pilot program called "Know Your History". 88 programs were held in the series in all KCLS regions, and 1,469 patrons attended. In addition to new programs, we also highlighted existing partnerships with local genealogical societies in conjunction with the series. The intended outcome of the series was to strengthen partnerships with local history/genealogy organizations, increase awareness of library resources (including new technology), and appeal to a segment of library users who consistently express an interest in this type of programming.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

\$22,000 was granted to support Spanish Literacy programs such as Tres Reyes (Three Wise Men), DÍA, ¡Fiestas!, National Hispanic Heritage Month, Plaza Comunitaria, and Family Book Club. In total these programs engaged more than 2,200 participants and community partners such as Univision News, Seattle Latino Film Festival, Renton Technical College, and the Seattle Goodwill. Also included in this grant is the KCLS Foundation's support of Literacy for Citizenship which funds the materials for the program.

More than \$38,000 was granted to support Early Learning and Literacy programs such as Raising a Reader, ¡Fiestas!, Barbershop Books and Quick Reads Shelves. All of these efforts promote caregiver-child bonding through reading activities, regular library usage through education and promotion of library services, and the development of early literacy skills. Additionally, free books are distributed to participants to ensure even the earliest of readers are able to start their own home library.

\$25,000 enabled KCLS to pilot the "10 to Try" program (initially named Reading Resolutions). Designed to encourage sustained involvement with the library throughout the year, participants were challenged to read a book from each of the 10 categories. In association with the program, 13 author events were hosted drawing more than 575 attendees total.

KCLS Foundation activities of significant import in 2017 include:

KCLS Foundation held the Literary Lions Gala in March 2017, raising \$380,000 in funds and engaging 775 attendees. Best-selling author and award-winning novelist Daniel Handler was the event keynote and Nancy Pearl served as the evening's emcee. The event was held at the Bellevue Hyatt Regency and featured 18 local authors who were recognized as the 2017 KCLS Literary Lions.

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, 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 \$1,020,000 and \$782,000, respectively, of unrestricted net assets for operating reserves and specific programs as of December 31, 2017 and 2016.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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>2017</u>	<u>2016</u>
Early Literacy and Children's Programs	\$ 170,902	\$ 85,532
Mobile Maker/ ideaX	-	9,571
Let's READ! Program	-	2,240
Community Leaders/ State of the Library	-	1,230
Other Programs/ Branch Gifts	1,361	6,264
	<u>\$ 172,263</u>	<u>\$ 104,837</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 0.25% 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, 2017 and 2016, 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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 122,758	\$ 90,953
Equities	2,103,758	1,771,320
Bonds	<u>575,034</u>	<u>505,282</u>
	<u>\$ 2,801,550</u>	<u>\$ 2,367,555</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.

Other receivables

Receivables are stated at their net realizable value.

Promises to give

Promises to give are stated at their net realizable value. 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 \$114,658 and \$80,100, respectively, are shown net of the allowance for uncollectible amounts of \$3,000 at December 31, 2017 and 2016 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, 2017 or 2016.

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 a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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 \$1,208,775 and \$1,299,074, respectively, related to amounts directly paid to the Library or to vendors on behalf of the Library for the years ended December 31, 2017 and 2016. Library in-kind staff and office support expenses were valued at \$526,327 and \$511,444, respectively, for the years ended December 31, 2017 and 2016. At December 31, 2017 and 2016, KCLS Foundation had payables directly owed to the Library of \$481,456 and \$138,874, 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.

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, 2017				
Equities	\$ 2,103,758	\$ -	\$ -	\$ 2,103,758
Bonds	575,034	-	-	575,034
Charitable lead annuity trust	-	-	440,283	440,283
Total	<u>\$ 2,678,792</u>	<u>\$ -</u>	<u>\$ 440,283</u>	<u>\$ 3,119,075</u>
As of December 31, 2016				
Equities	\$ 1,771,320	\$ -	\$ -	\$ 1,771,320
Bonds	505,282	-	-	505,282
Charitable lead annuity trust	-	-	521,482	521,482
Total	<u>\$ 2,276,602</u>	<u>\$ -</u>	<u>\$ 521,482</u>	<u>\$ 2,798,084</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE D - FAIR VALUE MEASUREMENTS (Continued)

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

	<u>2017</u>	<u>2016</u>
Fair value - beginning of year	\$ 521,482	\$ 591,202
Trust distributions	(84,000)	(84,000)
Change in value of charitable lead annuity trust	<u>2,801</u>	<u>14,280</u>
Fair value - end of year	<u>\$ 440,283</u>	<u>\$ 521,482</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.

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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE E - ENDOWMENT (Continued)

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

KCLS Foundation’s spending policy, expressed as a percentage of market value of the endowment, is determined on a year-to-year basis by the Board upon recommendation of the Finance and Audit Committee. The policy provides the Finance and Audit Committee the latitude to recommend spending up to six percent of the average market value of the endowment over the last 12 quarters.

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.

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, 2017 or 2016.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE E - ENDOWMENT (Continued)

Change in endowment net assets for the year ended December 31, 2017:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets				
January 1, 2017	\$ -	\$ 85,532	\$ 687,120	\$ 772,652
Plus:				
Trust distributions	-	-	84,000	84,000
Investment income	-	24,072	-	24,072
Net gain on investments	-	94,921	-	94,921
Less:				
Appropriation of endowment assets for expenditure	-	(33,623)	-	(33,623)
Endowment net assets December 31, 2017	<u>\$ -</u>	<u>\$ 170,902</u>	<u>\$ 771,120</u>	<u>\$ 942,022</u>

Change in endowment net assets for the year ended December 31, 2016:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets				
January 1, 2016	\$ -	\$ 74,649	\$ 603,120	\$ 677,769
Plus:				
Trust distributions	-	-	84,000	84,000
Investment income	-	14,076	-	14,076
Net gain on investments	-	26,141	-	26,141
Less:				
Appropriation of endowment assets for expenditure	-	(29,334)	-	(29,334)
Endowment net assets December 31, 2016	<u>\$ -</u>	<u>\$ 85,532</u>	<u>\$ 687,120</u>	<u>\$ 772,652</u>

NOTE F - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2017 through July 13, 2018, 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, 2017 including the estimates inherent in the processing of the financial statements.