

KING COUNTY LIBRARY SYSTEM FOUNDATION

FINANCIAL STATEMENTS  
With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2018 AND 2017



KING COUNTY LIBRARY SYSTEM FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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INDEPENDENT AUDITOR'S REPORT

July 12, 2019

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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 404,953	\$ 456,741
Investments	1,612,582	1,859,528
Promises to give, net	3,561,471	114,658
Other receivables	28,407	31,688
Other current assets	<u>20,499</u>	<u>12,500</u>
Total Current Assets	5,627,912	2,475,115
Endowment Investments	921,557	942,022
Beneficial Interest in Charitable Lead Annuity Trust	<u>363,780</u>	<u>440,283</u>
Total Assets	<u>\$ 6,913,249</u>	<u>\$ 3,857,420</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 56,131	\$ 34,078
Programs payable	<u>162,739</u>	<u>448,214</u>
Total Liabilities	<u>218,870</u>	<u>482,292</u>
Net Assets		
Without donor restrictions	4,168,137	971,462
Without donor restrictions - board-designated	<u>1,200,000</u>	<u>1,020,000</u>
Total Net Assets Without Donor Restriction	5,368,137	1,991,462
With donor restrictions	<u>1,326,242</u>	<u>1,383,666</u>
Total Net Assets	<u>6,694,379</u>	<u>3,375,128</u>
	<u>\$ 6,913,249</u>	<u>\$ 3,857,420</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support, Revenue, and Other Support						
In-kind contributions	\$ 3,657,271		\$ 3,657,271	\$ 787,543		\$ 787,543
Other contributions	3,680,937	\$ 627,385	4,308,322	292,941	\$ 266,707	559,648
Special events revenue	329,220	224,375	553,595	415,834	-	415,834
Book sales	95,797		95,797	114,958		114,958
Investment income	3,499	52,874	56,373	41,596	24,072	65,668
Other revenues	31,737		31,737	35,100		35,100
Net assets released from purpose restrictions	850,567	(850,567)	-	318,274	(318,274)	-
Total Public Support, Revenue, and Other Support	8,649,028	54,067	8,703,095	2,006,246	(27,495)	1,978,751
Expenses						
Program services	4,360,728		4,360,728	1,400,409		1,400,409
Management and general	218,578		218,578	166,106		166,106
Fundraising	561,355		561,355	581,247		581,247
Total Expenses	5,140,661		5,140,661	2,147,762		2,147,762
Change in Net Assets Before Gains and Losses	3,508,367	54,067	3,562,434	(141,516)	(27,495)	(169,011)
Gains and Losses						
Net gain/(loss) on investments	(131,692)	(118,988)	(250,680)	207,829	94,921	302,750
Change in value of charitable lead annuity trust	-	7,497	7,497	-	2,801	2,801
Total Gains and Losses	(131,692)	(111,491)	(243,183)	207,829	97,722	305,551
Total Change in Net Assets	3,376,675	(57,424)	3,319,251	66,313	70,227	136,540
Net Assets – beginning of year	1,991,462	1,383,666	3,375,128	1,925,149	1,313,439	3,238,588
Net Assets – end of year	\$ 5,368,137	\$ 1,326,242	\$ 6,694,379	\$ 1,991,462	\$ 1,383,666	\$ 3,375,128

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018				2017			
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
Program expenses and materials	\$ 4,114,972	\$ -	\$ 8,390	\$ 4,123,362	\$ 1,195,404	\$ -	\$ 13,371	\$ 1,208,775
In-kind staff	184,247	134,281	205,792	524,320	152,505	114,041	213,020	479,566
Special events	30	5,054	186,429	191,513	-	4,146	183,160	187,306
Professional fees	42,482	10,685	93,982	147,149	38,474	6,412	100,123	145,009
In-kind office support	18,997	32,130	19,434	70,561	14,026	13,380	19,355	46,761
Investment and bank fees	-	23,048	13,675	36,723	-	19,106	13,602	32,708
Postage and printing	-	-	24,265	24,265	-	12	22,011	22,023
Miscellaneous	-	13,380	9,388	22,768	-	9,009	16,605	25,614
Total Expenses	<u>\$ 4,360,728</u>	<u>\$ 218,578</u>	<u>\$ 561,355</u>	<u>\$ 5,140,661</u>	<u>\$ 1,400,409</u>	<u>\$ 166,106</u>	<u>\$ 581,247</u>	<u>\$ 2,147,762</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from donors	\$ 1,415,104	\$ 940,924
Cash received from book sales	99,078	112,154
Cash received from others	31,737	35,100
Cash received from interest	1,813	1,635
Cash paid to vendors	(630,357)	(414,173)
Cash paid to KCLS	(1,124,454)	(616,368)
Net Cash (Used) Provided by Operating Activities	<u>(207,079)</u>	<u>59,272</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	174,632	22,848
Purchases of investments	(103,341)	(90,060)
Net Cash Provided (Used) by Investing Activities	<u>71,291</u>	<u>(67,212)</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	(51,788)	76,060
Cash and Cash Equivalents - beginning of year	<u>456,741</u>	<u>380,681</u>
Cash and Cash Equivalents - end of year	<u>\$ 404,953</u>	<u>\$ 456,741</u>



# KING COUNTY LIBRARY SYSTEM FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

### 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](http://www.kclsfoundation.org).

#### **Programs executed by KCLS Foundation or receiving significant support in 2018 include:**

Approximately \$700,000 was granted to expand the continual growth of 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. With the number of STEAM-educated students and professionals falling far short of demand for skilled employees in these subjects both in our region and nationwide, it is critical that King County residents have access to these technologies. To provide access, the KCLS Foundation is supporting the continuation of mobile ideaX units, as well as two permanent, dedicated ideaX Makerspace labs in the Bellevue Library (opened spring 2018) and the Federal Way Library respectively (to open late 2019/early 2020).

Approximately \$290,000 was granted to Children's Programming and KCLS Summer Reading, which incentivizes children, teens, and adults to take time to read in the summer months. 2018 was Summer Reading's second year as a comprehensive, all-ages program. This perennial favorite encompasses not only reading programs for kids, teens, and adults but also a wide variety of summer programming for all ages. This includes healthy meals and snacks for students who lose access to free and reduced-price meals when schools are closed, bus trips to the library for students living in underserved areas, Summer Reading parties, mobile outreach programming, Summer Reading prizes for all ages, and book giveaways for children. Additional support in this category went to Raising a Reader, which is a national program that focuses on early literacy and parent-child bonding, and the Global Reading Challenge, which engages reluctant elementary school-aged readers.

Approximately \$9,000 was granted to support Spanish Literacy programs such as *Tres Reyes* (Three Wise Men), *DÍA, ¡Fiestas!*, *Plaza Comunitarias*, and Family Book Club. In the fall, KCLS celebrated Hispanic Heritage Month and featured an all-ages literacy contest. *Plazas Comunitarias*, the Mexican Consulate-accredited basic education program for Spanish-speaking adult learners, entered its third full year at Bellevue Library.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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

Approximately \$9,000 enabled KCLS to pilot a new initiative aimed at helping aspiring entrepreneurs turn business ideas into successful, sustainable enterprises. This pilot sponsored a series of business and entrepreneurship classes for individuals by partnering KCLS with Startup 425. Startup 425 is a partnership across five Eastside communities, which include Bellevue, Issaquah, Kirkland, Redmond, and Renton. KCLS views this partnership as a critical part of its ongoing strategy to create opportunities for residents through meaningful connections.

**KCLS Foundation activities of significant import in 2018 include:**

KCLS Foundation held the Literary Lions Gala in March 2018, raising approximately \$500,000 in funds and engaging 751 attendees. The author of 14 books including two recent memoirs, Kareem Abdul-Jabbar was the event keynote and Nancy Pearl served as the evening's emcee. The event was held at the Bellevue Hyatt Regency and featured 15 local authors who were recognized at the 2018 Literary Lions Gala.

**Adoption of new accounting pronouncement**

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. KCLS Foundation has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly.

**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 two classes of net assets: Net Assets Without Donor Restrictions and Net Assets With Donor Restrictions. The net assets of KCLS Foundation are classified as follows:

Net Assets Without Donor Restrictions - Net assets available for the use in general operations and not subject to donor (or certain grantor) restrictions. The Board of Directors designated \$1,200,000 and \$1,020,000 of net assets without donor restrictions for operating reserves and specific programs as of December 31, 2018 and 2017, respectively.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets with Donor Restrictions - Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Net assets with donor restrictions are available as follows at December 31:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specific purpose:		
Early Literacy and Children's Programs	\$ 66,437	\$ 170,902
Stem2Go/ideaX	40,299	-
Other Programs/ Branch Gifts	<u>606</u>	<u>1,361</u>
	<u>107,342</u>	<u>172,263</u>
Endowments:		
Subject to spending policy and appropriation:		
General endowment	855,120	771,120
Not subject to spending policy or appropriation:		
Beneficial interest in charitable lead annuity trust	<u>363,780</u>	<u>440,283</u>
	<u>1,218,900</u>	<u>1,211,403</u>
	<u>\$ 1,326,242</u>	<u>\$ 1,383,666</u>

Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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 0.25% to 2% 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, 2018 and 2017, 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>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 202,243	\$ 122,758
Equities	1,845,425	2,103,758
Bonds	486,471	575,034
	<u>\$ 2,534,139</u>	<u>\$ 2,801,550</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment income and gains restricted by donors are reported as increases in net assets without donor restriction 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.

Concentration

One bequest represented 37% of total support and revenue in the year ended December 31, 2018 and 92% of promises to give at December 31, 2018.

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 \$3,561,471 and \$114,658 are shown net of the allowance for uncollectible amounts of \$2,800 and \$3,000 at December 31, 2018 and 2017, 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, 2018 or 2017.

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. Where possible, specific expenses have been charged directly to the appropriate category. Personnel costs are allocated based on time and effort towards programs. When functions are shared or costs are intermingled, expenses are allocated based on employee counts.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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 and promises to give, 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.

Reclassification

Certain accounts in the 2017 financial statements have been reclassified for comparative purposes to conform with the presentation in 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, 2017.

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 \$4,123,362 and \$1,208,775, respectively, related to amounts directly paid to the Library or to vendors on behalf of the Library for the years ended December 31, 2018 and 2017. Library in-kind staff and office support expenses were valued at \$594,881 and \$526,327, respectively, for the years ended December 31, 2018 and 2017. At December 31, 2018 and 2017, KCLS Foundation had payables directly owed to the Library of \$198,906 and \$481,456, respectively.

NOTE C - BENEFICIAL INTEREST IN 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, 2018 AND 2017

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, 2018				
Equities	\$ 1,845,425	\$ -	\$ -	\$ 1,845,425
Bonds	486,471	-	-	486,471
Beneficial interest in charitable lead annuity trust	-	-	363,780	363,780
Total	<u>\$ 2,331,896</u>	<u>\$ -</u>	<u>\$ 363,780</u>	<u>\$ 2,695,676</u>

	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
Beneficial interest in 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>

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

	2018	2017
Fair value - beginning of year	\$ 440,283	\$ 521,482
Trust distributions	(84,000)	(84,000)
Change in value of charitable lead annuity trust	7,497	2,801
Fair value - end of year	<u>\$ 363,780</u>	<u>\$ 440,283</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, 2018 AND 2017

### NOTE E - ENDOWMENT

The KCLS Foundation endowment consists of one donor-restricted fund established for Early Literacy and Children's Programs.

#### **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 donor-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.

#### **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**

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.



KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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.

**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 net assets without donor restriction. There were no such deficiencies as of December 31, 2018 or 2017.

Change in endowment net assets for the year ended December 31, 2018:

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
Endowment net assets			
January 1, 2018	\$ -	\$ 942,022	\$ 942,022
Plus:			
Trust distributions	-	84,000	84,000
Investment income	-	52,874	52,874
Net loss on investments	-	(118,988)	(118,988)
Less:			
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(38,351)</u>	<u>(38,351)</u>
Endowment net assets			
December 31, 2018	<u>\$ -</u>	<u>\$ 921,557</u>	<u>\$ 921,557</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE E - ENDOWMENT (Continued)

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

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment net assets			
January 1, 2017	\$ -	\$ 772,652	\$ 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>\$ 942,022</u>	<u>\$ 942,022</u>

NOTE F - LIQUIDITY

KCLS Foundation receives significant contributions and promises to give that may be restricted by donors. Financial assets that are not restricted are available to meet programs that are ongoing, major, and central to its annual operations. KCLS Foundation manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

KCLS Foundation's Impact Committee meets at least semi-annually to review and approve grant requests from KCLS. Due to this timing, the KCLS Foundation strives to maintain financial assets available to meet general expenditures at a level that represents 100% of annual expenses for administrative, general, and fundraising expenses plus an amount that represents the next expected payment for semi-annual grant commitments approved by the Impact Committee, which typically represents approximately 50% of the expected annual grant requests. KCLS Foundation policy states that board-designated reserves are approved within the annual budget such that its reserves equal approximately 50% of next fiscal year's budgeted operating revenues.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE F - LIQUIDITY (Continued)

	<u>2018</u>
Total financial assets	\$ 6,892,750
Less amounts not available to be used within one year:	
Endowment investments	(921,557)
Beneficial interest in charitable lead annuity trust	(363,780)
Funds subject to donor-imposed purpose restrictions	<u>(40,905)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 5,566,508</u>

NOTE G - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2018 through July 12, 2019, 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, 2018 including the estimates inherent in the processing of the financial statements.