

KING COUNTY LIBRARY SYSTEM FOUNDATION

FINANCIAL STATEMENTS  
With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2019 AND 2018



KING COUNTY LIBRARY SYSTEM FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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## INDEPENDENT AUDITOR'S REPORT

August 25, 2020

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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 598,357	\$ 404,953
Investments	2,140,977	1,612,582
Promises to give, net	2,668,165	3,329,197
Other receivables	24,029	28,407
Other current assets	<u>19,999</u>	<u>20,499</u>
Total Current Assets	5,451,527	5,395,638
Beneficial Interest in Charitable Remainder Annuity Trust	232,274	232,274
Beneficial Interest in Charitable Lead Annuity Trust	288,810	363,780
Endowment Investments	<u>1,121,775</u>	<u>921,557</u>
Total Assets	<u>\$ 7,094,386</u>	<u>\$ 6,913,249</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 94,960	\$ 56,131
Programs payable	<u>299,780</u>	<u>162,739</u>
Total Liabilities	<u>394,740</u>	<u>218,870</u>
Net Assets		
Without donor restrictions	3,965,086	4,168,137
Without donor restrictions - board-designated	<u>1,300,000</u>	<u>1,200,000</u>
Total Net Assets Without Donor Restriction	5,265,086	5,368,137
With donor restrictions	<u>1,434,560</u>	<u>1,326,242</u>
Total Net Assets	<u>6,699,646</u>	<u>6,694,379</u>
	<u>\$ 7,094,386</u>	<u>\$ 6,913,249</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support, Revenue, and Other Support						
In-kind contributions	\$ 468,728		\$ 468,728	\$ 3,062,390		\$ 3,062,390
KCLS in-kind contributions	577,268		577,268	594,881		594,881
Other contributions	586,564	\$ 114,568	701,132	4,226,850	\$ 81,472	4,308,322
Special events revenue	551,358	-	551,358	553,595	-	553,595
Book sales	96,345		96,345	95,797		95,797
Investment income	35,599	18,280	53,879	3,499	35,200	38,699
Other revenues	30,625		30,625	31,737		31,737
Net assets released from purpose restrictions	174,406	(174,406)	-	62,605	(62,605)	-
Total Public Support, Revenue, and Other Support	<u>2,520,893</u>	<u>(41,558)</u>	<u>2,479,335</u>	<u>8,631,354</u>	<u>54,067</u>	<u>8,685,421</u>
Expenses						
Program services	1,716,215		1,716,215	4,360,728		4,360,728
Management and general	385,626		385,626	200,904		200,904
Fundraising	719,364		719,364	561,355		561,355
Total Expenses	<u>2,821,205</u>		<u>2,821,205</u>	<u>5,122,987</u>		<u>5,122,987</u>
Change in Net Assets Before Gains and Losses	<u>(300,312)</u>	<u>(41,558)</u>	<u>(341,870)</u>	<u>3,508,367</u>	<u>54,067</u>	<u>3,562,434</u>
Gains and Losses						
Valuation loss on receivables	(49,009)	-	(49,009)	-	-	-
Net gain (loss) on investments	246,270	140,846	387,116	(131,692)	(118,988)	(250,680)
Change in value of charitable lead annuity trust	-	9,030	9,030	-	7,497	7,497
Total Gains and Losses	<u>197,261</u>	<u>149,876</u>	<u>347,137</u>	<u>(131,692)</u>	<u>(111,491)</u>	<u>(243,183)</u>
Total Change in Net Assets	<u>(103,051)</u>	<u>108,318</u>	<u>5,267</u>	<u>3,376,675</u>	<u>(57,424)</u>	<u>3,319,251</u>
Net Assets – beginning of year	<u>5,368,137</u>	<u>1,326,242</u>	<u>6,694,379</u>	<u>1,991,462</u>	<u>1,383,666</u>	<u>3,375,128</u>
Net Assets – end of year	<u>\$ 5,265,086</u>	<u>\$ 1,434,560</u>	<u>\$ 6,699,646</u>	<u>\$ 5,368,137</u>	<u>\$ 1,326,242</u>	<u>\$ 6,694,379</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019				2018			
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
Program expenses and materials	\$ 1,295,929	\$ 35,390	\$ 18,129	\$ 1,349,448	\$ 1,052,582	\$ -	\$ 8,390	\$ 1,060,972
Program expenses -in-kind	173,540	126,452	168,736	468,728	3,062,390	-	-	3,062,390
In-kind staff	170,189	126,493	168,736	465,418	184,247	134,281	205,792	524,320
Special events	3	3,953	194,063	198,019	30	5,054	186,429	191,513
Professional fees	42,853	17,692	95,472	156,017	42,482	10,685	93,982	147,149
In-kind office support	33,590	42,986	35,274	111,850	18,997	32,130	19,434	70,561
Miscellaneous	111	25,152	9,106	34,369	-	13,380	9,388	22,768
Postage and printing	-	-	19,168	19,168	-	-	24,265	24,265
Bank fees	-	7,508	10,680	18,188	-	5,374	13,675	19,049
Total Expenses	<u>\$ 1,716,215</u>	<u>\$ 385,626</u>	<u>\$ 719,364</u>	<u>\$ 2,821,205</u>	<u>\$ 4,360,728</u>	<u>\$ 200,904</u>	<u>\$ 561,355</u>	<u>\$ 5,122,987</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from donors	\$ 1,864,513	\$ 1,415,104
Cash received from book sales	100,723	99,078
Cash received from others	30,625	31,737
Cash received from interest	2,546	1,813
Cash paid to vendors	(900,596)	(630,357)
Cash paid to KCLS	<u>(715,768)</u>	<u>(1,124,454)</u>
Net Cash Provided (Used) by Operating Activities	<u>382,043</u>	<u>(207,079)</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	24,155	174,632
Purchases of investments	<u>(296,794)</u>	<u>(103,341)</u>
Net Cash (Used) Provided by Investing Activities	<u>(272,639)</u>	<u>71,291</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	193,404	(51,788)
Cash and Cash Equivalents - beginning of year	<u>404,953</u>	<u>456,741</u>
Cash and Cash Equivalents - end of year	<u>\$ 598,357</u>	<u>\$ 404,953</u>



KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

**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 2019 include:**

Approximately \$774,000 was granted to expand the continual growth of IdeaX programming. IdeaX will continue to grow into a multi-audience program with an emphasis on emerging technology, art/design/music, and economic empowerment. Patrons of all ages will encounter programming via outreach, in traditional library programming spaces, and in multi-purpose IdeaX Makerspaces at the Bellevue and (by mid-2020) the Federal Way library. KCLS Foundation supports facility upgrades, technology purchase and licensing and project-specific staffing.

KCLS Summer Reading was granted approximately \$285,000. Summer Reading grant incentivizes children, teens, and adults to take time to read in the summer months. Summer Reading motivates people to keep learning over the summer, builds community, and establishes the library as a valued third space and information hub for all ages. The Summer Reading Program makes it possible to reach, serve, encourage, and reward readers inside and outside the library. 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.

Workforce Development program was granted approximately \$77,000 to support KCLS's position in helping our community be prepared and resilient in this changing economic reality. The mission to help our community achieve success and to inspire lifelong learning is perfectly aligned with the needs of today's workforce. As a result, many of KCLS's core services have access to information, trusted spaces, technology, broadband and connection to staff and community are already powerful forces for economic equity in King County. By investing in making this alignment more intentional and targeted, we can have a meaningful impact on our community's ability to succeed.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

“Dream Big: Anything is Possible” campaign was granted approximately \$57,000. This campaign promotes and encourages teens to take advantage of the wide range of programs and resources offered through community libraries. It opens up a world of possibilities and leads the way to achieve their educational and career dreams. KCLS programs includes science, technology, engineering, art and math (STEAM education) homework help, mentoring, coding classes, ESL support and SAT prep. It also encompasses Teen Voices, a multi-week spring program to motivate, empower and prepare students to be tomorrow’s leaders.

**KCLS Foundation activities of significant importance in 2019 include:**

KCLS Foundation held the Literary Lions Gala in March 2019, raising approximately \$470,000 in funds and engaging 614 attendees. An award-winning author of several novels and a short story collection 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 at the 2019 Literary Lions Gala.

Adoption of new accounting pronouncement

In June 2018, FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. KCLS Foundation has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Analysis of various provisions of this standard resulted in no significant changes in the way KCLS Foundation recognizes contributions, and therefore no changes to the previously issued audited financial statements were required.

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:

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$1,300,000 and \$1,200,000 of net assets without donor restrictions for operating reserves and specific programs as of December 31, 2019 and 2018, respectively.

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 were as follows as of December 31:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specific purpose:		
Stem2Go/IdeaX	\$ -	\$ 40,299
Artificial Intelligence	13,328	-
Other Programs/ Branch Gifts	-	606
Dream Big	5,647	-
2020 Reel Fest Award	5,000	-
	<u>23,975</u>	<u>40,905</u>
Endowments:		
Subject to spending policy and appropriation:		
Early Literacy and Children's Programs endowment	1,121,775	921,557
Not subject to spending policy or appropriation:		
Beneficial interest in charitable lead annuity trust	288,810	363,780
	<u>1,410,585</u>	<u>1,285,337</u>
	<u>\$ 1,434,560</u>	<u>\$ 1,326,242</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, 2019 AND 2018

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 0.5% to 0.65% 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. The fair values of the money market funds at December 31, 2019 and 2018, 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.

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.

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>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 377,774	\$ 202,243
Equities	2,277,288	1,845,425
Bonds	607,690	486,471
	<u>\$ 3,262,752</u>	<u>\$ 2,534,139</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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.

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 \$2,668,165 and \$3,561,471 are shown net of the allowance for uncollectible amounts of \$277,837 and \$365,147 as of December 31, 2019 and 2018, respectively, and are due in less than one year.

Concentration

One bequest receivable represented 93% and 92% of promises to give as of December 31, 2019 and 2018, respectively. This bequest represented 37% of total support and revenue for the year ended December 31, 2018. There were no concentrations in support and revenue for the year ended December 31, 2019.

Other receivables

Receivables are stated at their net realizable value.

Beneficial interest in charitable remainder annuity trust

In conjunction with the receipt of a bequest gift in 2018, KCLS Foundation has been named as remainderman in an irrevocable annuity trust. KCLS Foundation recorded their residual interest in the trust at the net present value of estimated future cash flows based on the life expectancy of the primary beneficiary.

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.

Support and revenue recognition

KCLS Foundation recognizes revenue from sales of books at the time of purchase or when the books are transferred. KCLS Foundation records special events revenue equal to the cost of direct benefits to donors, and contribution revenue for the difference.

KCLS Foundation recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return or release, are not recognized until the conditions on which they depend have been met. KCLS Foundation had no conditional promises to give as of December 31, 2019 or 2018.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 or program services-in-kind.

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.

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 2018 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, 2018.

NOTE B - 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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE B - LIQUIDITY (Continued)

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.

	<u>2019</u>	<u>2018</u>
Total financial assets	\$ 7,074,387	\$ 6,660,476
Less amounts not available to be used within one year:		
Endowment investments	(1,121,775)	(921,557)
Beneficial interest in charitable lead annuity trust	(288,810)	(363,780)
Trust receivable	(232,274)	(232,274)
Funds subject to donor-imposed purpose restrictions	<u>(23,975)</u>	<u>(40,905)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 5,407,553</u>	<u>\$ 5,101,960</u>

NOTE C - FAIR VALUE MEASUREMENTS

Assets carried at fair value on a recurring basis (at least annually) consist of the following:

	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Total</u>
As of December 31, 2019				
Equities	\$ 2,277,288	\$ -	\$ -	\$ 2,277,288
Bonds	607,690	-	-	607,690
Beneficial interest in charitable lead annuity trust	-	-	288,810	288,810
Total	<u>\$ 2,884,978</u>	<u>\$ -</u>	<u>\$ 288,810</u>	<u>\$ 3,173,788</u>
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>

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE C - FAIR VALUE MEASUREMENTS (Continued)

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

	<u>2019</u>	<u>2018</u>
Fair value - beginning of year	\$ 363,780	\$ 440,283
Trust distributions	(84,000)	(84,000)
Change in value of charitable lead annuity trust	<u>9,030</u>	<u>7,497</u>
Fair value - end of year	<u>\$ 288,810</u>	<u>\$ 363,780</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 D - 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 \$1,818,176 and \$4,123,362, respectively, related to amounts directly paid to the Library or to vendors on behalf of the Library for the years ended December 31, 2019 and 2018.

Library in-kind staff and office support expenses were valued at \$577,268 and \$594,881, respectively, for the years ended December 31, 2019 and 2018. At December 31, 2019 and 2018, KCLS Foundation had payables directly owed to the Library of \$342,504 and \$198,906, respectively.

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.



KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE E - ENDOWMENT (Continued)

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 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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE E - ENDOWMENT (Continued)

Change in endowment net assets are as follows:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment net assets as of January 1, 2018	\$ -	\$ 942,022	\$ 942,022
Plus:			
Trust distributions	-	84,000	84,000
Investment income	-	35,200	35,200
Net loss on investments	-	(118,988)	(118,988)
Less:			
Appropriation of endowment assets for expenditur	<u>-</u>	<u>(20,677)</u>	<u>(20,677)</u>
Endowment net assets as of December 31, 2018	-	921,557	921,557
Plus:			
Trust distributions	-	84,000	84,000
Investment income	-	18,280	18,280
Net gain on investments	-	140,846	140,846
Less:			
Appropriation of endowment assets for expenditur	<u>-</u>	<u>(42,908)</u>	<u>(42,908)</u>
Endowment net assets as of December 31, 2019	<u>\$ -</u>	<u>\$ 1,121,775</u>	<u>\$ 1,121,775</u>

NOTE F - 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.

NOTE G - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2019 through August 25, 2020, 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, 2019 including the estimates inherent in the processing of the financial statements.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

NOTE G - SUBSEQUENT EVENTS (Continued)

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. On March 23, 2020, the Governor of Washington declared a health emergency and issued an order to close all nonessential businesses.

Management continues to evaluate the financial impact of the COVID-19 pandemic and has concluded that while it is likely that the virus will have a negative effect on KCLSF's financial position, change in net assets, and cash flows, the specific impact is not readily determinable as of the date of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.