

KING COUNTY LIBRARY SYSTEM FOUNDATION

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2020 AND 2019



KING COUNTY LIBRARY SYSTEM FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	2
STATEMENTS OF FINANCIAL POSITION December 31, 2020 and 2019	4
STATEMENTS OF ACTIVITIES Years ended December 31, 2020 and 2019	5
STATEMENTS OF FUNCTIONAL EXPENSES Years ended December 31, 2020 and 2019	6
STATEMENTS OF CASH FLOWS Years ended December 31, 2020 and 2019	7
NOTES TO FINANCIAL STATEMENTS	8 - 17

INDEPENDENT AUDITOR'S REPORT

September 10, 2021

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, 2020 and 2019, 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, 2020 and 2019, 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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 1,084,659	\$ 598,357
Investments	3,457,515	2,140,977
Promises to give, net	2,370,001	2,668,165
Other receivables	11,519	24,029
Other current assets	<u>43,006</u>	<u>19,999</u>
Total Current Assets	6,966,700	5,451,527
Beneficial Interest in Charitable Remainder Annuity Trust	300,420	232,274
Beneficial Interest in Charitable Lead Annuity Trust	209,761	288,810
Endowment Investments	<u>1,405,305</u>	<u>1,121,775</u>
Total Assets	<u>\$ 8,882,186</u>	<u>\$ 7,094,386</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 67,393	\$ 94,960
Programs payable	<u>190,526</u>	<u>299,780</u>
Total Liabilities	<u>257,919</u>	<u>394,740</u>
Net Assets		
Without donor restrictions	5,843,454	3,965,086
Without donor restrictions - board-designated	<u>1,100,000</u>	<u>1,300,000</u>
Total Net Assets Without Donor Restriction	6,943,454	5,265,086
With donor restrictions	<u>1,680,813</u>	<u>1,434,560</u>
Total Net Assets	<u>8,624,267</u>	<u>6,699,646</u>
	<u>\$ 8,882,186</u>	<u>\$ 7,094,386</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support, Revenue, and Other Support						
In-kind contributions	\$ 5,595		\$ 5,595	\$ 468,728		\$ 468,728
KCLS in-kind contributions	641,359		641,359	577,268		577,268
Other contributions	1,158,585	\$ 61,875	1,220,460	586,564	\$ 114,568	701,132
Special events revenue	392,711	-	392,711	551,358	-	551,358
Book sales	113,400		113,400	96,345		96,345
Investment income	26,598	17,464	44,062	35,599	18,280	53,879
Other revenues	7,702		7,702	30,625		30,625
Net assets released from purpose restrictions	30,103	(30,103)	-	174,406	(174,406)	-
Total Public Support, Revenue, and Other Support	<u>2,376,053</u>	<u>49,236</u>	<u>2,425,289</u>	<u>2,520,893</u>	<u>(41,558)</u>	<u>2,479,335</u>
Expenses						
Program services	986,418		986,418	1,716,215		1,716,215
Management and general	227,638		227,638	385,626		385,626
Fundraising	333,867		333,867	719,364		719,364
Total Expenses	<u>1,547,923</u>		<u>1,547,923</u>	<u>2,821,205</u>		<u>2,821,205</u>
Change in Net Assets Before Gains and Losses	<u>828,130</u>	<u>49,236</u>	<u>877,366</u>	<u>(300,312)</u>	<u>(41,558)</u>	<u>(341,870)</u>
Gains and Losses						
Valuation gain (loss) on receivables	227,110	-	227,110	(49,009)	-	(49,009)
Net gain on investments	623,128	192,066	815,194	246,270	140,846	387,116
Change in value of charitable lead annuity trust	-	4,951	4,951	-	9,030	9,030
Total Gains and Losses	<u>850,238</u>	<u>197,017</u>	<u>1,047,255</u>	<u>197,261</u>	<u>149,876</u>	<u>347,137</u>
Total Change in Net Assets	<u>1,678,368</u>	<u>246,253</u>	<u>1,924,621</u>	<u>(103,051)</u>	<u>108,318</u>	<u>5,267</u>
Net Assets – beginning 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>
Net Assets – end of year	<u>\$ 6,943,454</u>	<u>\$ 1,680,813</u>	<u>\$ 8,624,267</u>	<u>\$ 5,265,086</u>	<u>\$ 1,434,560</u>	<u>\$ 6,699,646</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020				2019			
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
Program expenses and materials	\$ 787,151	\$ -	\$ -	\$ 787,151	\$ 1,295,929	\$ 35,390	\$ 18,129	\$ 1,349,448
Program expenses -in-kind			5,595	5,595	173,540	126,452	168,736	468,728
In-kind staff	153,820	124,769	208,968	487,557	170,189	126,493	168,736	465,418
Special events	-	233	16,075	16,308	3	3,953	194,063	198,019
Professional fees	-	5,600	38,301	43,901	42,853	17,692	95,472	156,017
In-kind office support	45,447	57,545	50,810	153,802	33,590	42,986	35,274	111,850
Miscellaneous	-	29,347	5,682	35,029	111	25,152	9,106	34,369
Postage and printing	-	1,462	2,759	4,221	-	-	19,168	19,168
Bank fees	-	8,682	5,677	14,359	-	7,508	10,680	18,188
Total Expenses	<u>\$ 986,418</u>	<u>\$ 227,638</u>	<u>\$ 333,867</u>	<u>\$ 1,547,923</u>	<u>\$ 1,716,215</u>	<u>\$ 385,626</u>	<u>\$ 719,364</u>	<u>\$ 2,821,205</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Cash received from donors	\$ 2,070,299	\$ 1,864,513
Cash received from book sales	125,910	100,723
Cash received from others	7,702	30,625
Cash received from interest	2,240	2,546
Cash paid to vendors	(666,666)	(900,596)
Cash paid to KCLS	<u>(394,131)</u>	<u>(715,768)</u>
Net Cash Provided by Operating Activities	<u>1,145,354</u>	<u>382,043</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	-	24,155
Purchases of investments	<u>(743,052)</u>	<u>(296,794)</u>
Net Cash Used by Investing Activities	<u>(743,052)</u>	<u>(272,639)</u>
Cash Flows Provided by Financing Activities		
Cash received from beneficial interest in charitable lead annuity trust	<u>84,000</u>	<u>84,000</u>
Change in Cash and Cash Equivalents	486,302	193,404
Cash and Cash Equivalents - beginning of year	<u>598,357</u>	<u>404,953</u>
Cash and Cash Equivalents - end of year	<u>\$ 1,084,659</u>	<u>\$ 598,357</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

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) promotes literacy, learning, and libraries by providing support beyond public funding for initiatives and resources that enable the King County Library System to better serve the needs of our community. For more information, visit www.kclsfoundation.org.

Programs executed by KCLS Foundation or receiving significant support in 2020 include:

Approximately \$258,000 was granted to KCLS's innovation programs. These programs for patrons include Artificial Intelligence Exploration, Hotspot Lending Services, ideaX, Remote Patron Laptops and Digital Navigators. KCLS strives to become more integrated into everyday actions, create new ideas and change processes that serve all members of our community. KCLS Foundation funding supports the removal of barriers through these programs and establishes KCLS as a valued institution that helps patrons participate in our society, democracy, and economy.

KCLS was granted approximately \$161,000 to purchase two Library Locker systems in response to COVID-19 to meet the growing need for safe, contactless pick up of library items and access outside of normal library operating hours. Bothell and Covington were chosen via a process that considered the equity of digital access and the locations' suitability for outdoor locker installation. The lockers represent an expanded service opportunity that can benefit KCLS both now and in the future.

Early Literacy & Children's Programs were granted approximately \$97,000. These programs include Raising a Reader, Supporting Grade Level Reading, and Take & Make kits. Raising a Reader is a nationally recognized parent engagement and book delivery program. KCLS provides developmentally appropriate and diverse books for young children and their families, which are distributed through community partners each week. Supporting Grade Level Reading partners with schools to foster a love of reading has proven beneficial to participants as they continue through their education. In addition, during the closure of library buildings and school remote learning, KCLS purchased Take and Make kits that included literacy and STEM learning activities and supplies for children. The kits were distributed to underserved families through community partners including food banks.

KCLS Summer Reading was granted approximately \$77,000. Summer Reading 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 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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

KCLS' Extending Services to People Experiencing Homelessness program was granted approximately \$91,000. County and city leaders declared a State of Emergency on homelessness in November 2015. Since that time, homelessness has increased. KCLS expanded its outreach to Tent Cities, providing robust employment, information, and referral services via dedicated KCLS staff utilizing the bookmobile and Mobile Computer Lab to provide onsite services and collaborate with other service providers. KCLS has also invested in Peer Navigators to support outreach and in-building social work programs in the Riverview region. At the Renton Library, KCLS has expanded the range of program offerings designed to meet the needs of people with barriers to accessing resources, living independently, and managing health and well-being.

KCLS Foundation activities of significant importance in 2020 include:

A decision was made by the KCLS Foundation Board to cancel the 2020 Literary Lions Gala due to the increasing concerns around COVID-19. KCLS Foundation staff instead created a virtual gala with an online "Raised the Paddle" and an opportunity to purchase tickets to Author Salons and limited edition magnums, raising approximately \$423,000 in funds. The money raised is used to support a wide variety of KCLS programs, such as literacy improvement via summer reading, resources for people experiencing homelessness, and expanding opportunities for patrons to explore Artificial Intelligence.

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 \$1,100,000 and \$1,300,000 of net assets without donor restrictions for operating reserves and specific programs as of December 31, 2020 and 2019, 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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net assets with donor restrictions were as follows as of December 31:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specific purpose:		
2021 Literary Lions Gala Sponsorship	\$ 60,000	\$ -
Artificial Intelligence	-	13,328
Dream Big	5,647	5,647
Restricted Libraries & Library Gifts	100	-
2020 Reel Fest Award	-	5,000
	<u>65,747</u>	<u>23,975</u>
Endowments:		
Subject to spending policy and appropriation:		
Early Literacy and Children's Programs endowment	1,405,305	1,121,775
Not subject to spending policy or appropriation:		
Beneficial interest in charitable lead annuity trust	209,761	288,810
	<u>1,615,066</u>	<u>1,410,585</u>
	<u>\$ 1,680,813</u>	<u>\$ 1,434,560</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.

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 0.40% to 0.45% and have original maturities of 7 to 13 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, 2020 and 2019, 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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurements

In accordance with financial accounting standards, a three-tiered hierarchy of input levels is used for measuring fair value. Financial accounting standards defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques utilized to determine fair value are consistently applied. The three tiers of inputs used for fair value measurements are as follows:

Level 1: Fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2: Fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.

Level 3: Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

Investments

Investments are stated at fair value and consist of the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 166,889	\$ 377,774
Equities	3,713,330	2,277,288
Bonds	<u>982,601</u>	<u>607,690</u>
	<u>\$ 4,862,820</u>	<u>\$ 3,262,752</u>

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 \$2,370,001 and \$2,668,165 are shown net of the allowance for uncollectible amounts of \$253,834 and \$277,837 as of December 31, 2020 and 2019, respectively, and are due in less than one year.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration

One bequest receivable represented 96% and 93% of promises to give as of December 31, 2020 and 2019, respectively.

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, 2020 or 2019.

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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

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.

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.

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>2020</u>	<u>2019</u>
Total financial assets	\$ 8,839,180	\$ 7,074,387
Less amounts not available to be used within one year:		
Endowment investments	(1,405,305)	(1,121,775)
Beneficial interest in charitable lead annuity trust	(209,761)	(288,810)
Trust receivable	(300,420)	(232,274)
Funds subject to donor-imposed purpose restrictions	<u>(5,747)</u>	<u>(23,975)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 6,917,947</u>	<u>\$ 5,407,553</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

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, 2020				
Equities	\$ 3,713,330	\$ -	\$ -	\$ 3,713,330
Bonds	982,601	-	-	982,601
Beneficial interest in charitable lead annuity trust	-	-	209,761	209,761
Total	<u>\$ 4,695,931</u>	<u>\$ -</u>	<u>\$ 209,761</u>	<u>\$ 4,905,692</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>

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

	<u>2020</u>	<u>2019</u>
Fair value - beginning of year	\$ 288,810	\$ 363,780
Trust distributions	(84,000)	(84,000)
Change in value of charitable lead annuity trust	4,951	9,030
Fair value - end of year	<u>\$ 209,761</u>	<u>\$ 288,810</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 \$792,746 and \$1,818,176, respectively, related to amounts directly paid to the Library or to vendors on behalf of the Library for the years ended December 31, 2020 and 2019.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE D - RELATED PARTIES (Continued)

Library in-kind staff and office support expenses were valued at \$641,359 and \$577,268, respectively, for the years ended December 31, 2020 and 2019. At December 31, 2020 and 2019, KCLS Foundation had payables directly owed to the Library of \$190,526 and \$342,504, 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.

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

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE E - ENDOWMENT (Continued)

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.

Change in endowment net assets are as follows:

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
Endowment net assets as of January 1, 2019	\$ -	\$ 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 expenditure	-	(42,908)	(42,908)
Endowment net assets as of December 31, 2019	-	1,121,775	1,121,775
Plus:			
Trust distributions	-	84,000	84,000
Investment income	-	17,464	17,464
Net gain on investments	-	192,066	192,066
Less:			
Appropriation of endowment assets for expenditure	-	(10,000)	(10,000)
Endowment net assets as of December 31, 2020	<u>\$ -</u>	<u>\$ 1,405,305</u>	<u>\$ 1,405,305</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

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 - RISKS AND UNCERTAINTIES

In March 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 until further notice. Management is continually evaluating the ongoing impacts of the COVID-19 pandemic and has concluded that while it is reasonably possible that the virus could have a negative effect on the KCLS Foundation's financial position, change in net asset and cash flows, the specific impact, if any, is not readily determinable as of the date of these financial statements.

NOTE H - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2020 through September 10, 2021, 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, 2020 including the estimates inherent in the processing of the financial statements.