

KING COUNTY LIBRARY SYSTEM FOUNDATION

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2022 AND 2021



KING COUNTY LIBRARY SYSTEM FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	2 - 3
STATEMENTS OF FINANCIAL POSITION December 31, 2022 and 2021	4
STATEMENTS OF ACTIVITIES Years ended December 31, 2022 and 2021	5
STATEMENTS OF FUNCTIONAL EXPENSES Years ended December 31, 2022 and 2021	6
STATEMENTS OF CASH FLOWS Years ended December 31, 2022 and 2021	7
NOTES TO FINANCIAL STATEMENTS	8 - 19

INDEPENDENT AUDITOR'S REPORT

Board of Directors
King County Library System Foundation
Issaquah, Washington

Opinion

We have audited the accompanying financial statements of King County Library System Foundation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements (collectively 'the financial statements').

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of King County Library System Foundation as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of King County Library System Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about King County Library System Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 King County Library System Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about King County Library System Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Jacobson Jarvis & Co, PLLC

Jacobson Jarvis & Co, PLLC
Seattle, Washington
September 15, 2023

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 1,301,629	\$ 1,316,363
Investments	3,981,254	4,579,043
Promises to give, net	510,840	2,292,001
Other receivables	85,555	48,750
Other current assets	<u>35,499</u>	<u>18,689</u>
Total Current Assets	5,914,777	8,254,846
Long-term Promises to Give, net	2,061,501	-
Beneficial Interest in Charitable Remainder Annuity Trust	324,996	399,628
Beneficial Interest in Charitable Lead Annuity Trust	42,000	131,539
Endowment Investments	<u>1,451,456</u>	<u>1,700,549</u>
Total Assets	<u>\$ 9,794,730</u>	<u>\$ 10,486,562</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 66,856	\$ 150,275
Programs payable	<u>28,899</u>	<u>48,578</u>
Total Liabilities	<u>95,755</u>	<u>198,853</u>
Net Assets		
Without donor restrictions	6,233,853	7,170,109
Without donor restrictions - board-designated	<u>1,745,623</u>	<u>1,200,000</u>
Total Net Assets Without Donor Restrictions	7,979,476	8,370,109
With donor restrictions	<u>1,719,499</u>	<u>1,917,600</u>
Total Net Assets	<u>9,698,975</u>	<u>10,287,709</u>
	<u>\$ 9,794,730</u>	<u>\$ 10,486,562</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support, Revenue, and Other Support						
KCLS in-kind contributions	\$ 819,947		\$ 819,947	\$ 736,116		\$ 736,116
Other in-kind contributions	1,400		1,400	24,040		24,040
Other contributions	1,384,017	\$ 440,089	1,824,106	782,656	\$ 89,229	871,885
Special events revenue	524,099	-	524,099	543,759	-	543,759
Book sales	215,263		215,263	295,905		295,905
Investment income, net	50,340	29,417	79,757	79,851	29,362	109,213
Other revenues	2,799	-	2,799	3,816	-	3,816
Total Public Support, Revenue, and Other Support	<u>2,997,865</u>	<u>469,506</u>	<u>3,467,371</u>	<u>2,466,143</u>	<u>118,591</u>	<u>2,584,734</u>
Net Assets Released from Restrictions						
Satisfaction of purpose restrictions	259,040	(259,040)	-	79,465	(79,465)	-
Satisfaction of time restrictions	50,000	(50,000)	-	-	-	-
	<u>309,040</u>	<u>(309,040)</u>	<u>-</u>	<u>79,465</u>	<u>(79,465)</u>	<u>-</u>
Expenses						
Program services	1,581,725		1,581,725	1,216,160		1,216,160
Management and general	625,987		625,987	244,096		244,096
Fundraising	558,545		558,545	540,939		540,939
Total Expenses	<u>2,766,257</u>	<u>-</u>	<u>2,766,257</u>	<u>2,001,195</u>	<u>-</u>	<u>2,001,195</u>
Change in Net Assets Before Gains and Losses	<u>540,648</u>	<u>160,466</u>	<u>701,114</u>	<u>544,413</u>	<u>39,126</u>	<u>583,539</u>
Gains and Losses						
Net (loss) gain on investments	(863,727)	(353,028)	(1,216,755)	524,915	191,883	716,798
Change in value of charitable remainder annuity trust	(74,632)	-	(74,632)	357,327	-	357,327
Change in value of charitable lead annuity trust	7,078	(5,539)	1,539	-	5,778	5,778
Total Gains and Losses	<u>(931,281)</u>	<u>(358,567)</u>	<u>(1,289,848)</u>	<u>882,242</u>	<u>197,661</u>	<u>1,079,903</u>
Total Change in Net Assets	<u>(390,633)</u>	<u>(198,101)</u>	<u>(588,734)</u>	<u>1,426,655</u>	<u>236,787</u>	<u>1,663,442</u>
Net Assets – beginning of year	<u>8,370,109</u>	<u>1,917,600</u>	<u>10,287,709</u>	<u>6,943,454</u>	<u>1,680,813</u>	<u>8,624,267</u>
Net Assets – end of year	<u>\$ 7,979,476</u>	<u>\$ 1,719,499</u>	<u>\$ 9,698,975</u>	<u>\$ 8,370,109</u>	<u>\$ 1,917,600</u>	<u>\$ 10,287,709</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022				2021			
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
Program expenses and materials	\$ 1,387,591	\$ -	\$ -	\$ 1,387,591	\$ 991,226	\$ -	\$ -	\$ 991,226
In-kind staff	174,303	98,673	241,899	514,875	204,189	161,954	265,604	631,747
In-kind office support	19,831	263,385	21,856	305,072	20,469	64,045	19,855	104,369
Bad debt	-	206,459	-	206,459	-	-	-	-
Special events	-	-	180,722	180,722	-	565	71,881	72,446
Miscellaneous	-	56,490	35,594	92,084	276	-	38,401	38,677
Professional fees	-	980	71,193	72,173	-	1,000	114,633	115,633
Bank fees	-	-	3,793	3,793	-	16,532	-	16,532
Postage and printing	-	-	2,088	2,088	-	-	6,555	6,555
Program expenses – in-kind	-	-	1,400	1,400	-	-	24,010	24,010
Total Expenses	<u>\$ 1,581,725</u>	<u>\$ 625,987</u>	<u>\$ 558,545</u>	<u>\$ 2,766,257</u>	<u>\$ 1,216,160</u>	<u>\$ 244,096</u>	<u>\$ 540,939</u>	<u>\$ 2,001,195</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities		
Cash received from donors	\$ 1,951,629	\$ 1,723,571
Cash received from book sales	178,458	258,674
Cash received from others	2,799	3,816
Cash received from interest	8,910	1,015
Cash paid to vendors	(684,982)	(795,210)
Cash paid to KCLS	<u>(1,415,157)</u>	<u>(480,578)</u>
Net Cash Provided by Operating Activities	<u>41,657</u>	<u>711,288</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	285,753	1,180,536
Purchases of investments	<u>(426,144)</u>	<u>(1,744,120)</u>
Net Cash Used by Investing Activities	<u>(140,391)</u>	<u>(563,584)</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	(14,734)	231,704
Cash and Cash Equivalents - beginning of year	<u>1,316,363</u>	<u>1,084,659</u>
Cash and Cash Equivalents - end of year	<u>\$ 1,301,629</u>	<u>\$ 1,316,363</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

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 advocacy, fundraising and grants funding for initiatives that address community needs, ensures that KCLS is able to advance its mission, and enables our public library system to remain vibrant, relevant and central in the lives of residents. For more information, visit www.kclsfoundation.org.

Programs executed by KCLS Foundation or receiving significant support in 2022 include:

Approximately \$270,000 was granted to support KCLS innovation programs. These programs include Hotspot Lending Services, IdeaX, Emerging Technology, and Data Engineering. Collectively, these programs are improving the ability of KCLS to utilize data and technology to better serve its increasingly diverse communities, while also making Science, Technology, Engineering, Arts and Mathematics (STEAM) education and access to the internet more equitable.

Approximately \$155,000 was granted to support Early Literacy & Children's Programs. These programs include Raising a Reader, Supporting Grade Level Reading, and Preschool Play Club. 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. Preschool Play Club is a kindergarten readiness program that was piloted at the White Center library to help children from that community to succeed in kindergarten.

Approximately \$336,000 was granted to support Adult Programming. A majority of this amount supported KCLS' Extending Services to People Experiencing Homelessness program, approximately \$138,281 which provides outreach to tent cities, providing robust employment, information, and referral services via dedicated KCLS staff and peer navigators utilizing the bookmobile and Mobile Computer Lab. In addition, the Invest in Yourself program received a grant to provide services to patrons who are seeking employment and better career opportunities.

KCLS Summer Reading was granted approximately \$337,000. 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.

The other programs funded total \$137,033, which includes Teens & Tweens Program for \$65,750, Community Engagement fund for \$43,600 and agility funding \$27,683.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Diversity, Equity and Inclusion (DEI) programs were granted approximately \$151,003. This set of programs advance DEI in our communities in a number of ways. First, the Authors of Color programs brings BIPOC authors to our communities to share their stories. Next, the Welcoming Center for New Arrivals and Supporting Afghan Arrivals programs provide various services to support immigrants, refugees, and other new members of our communities. The Pasifika Collection and Plazas Communitarians programs provide unique collections of books and literacy programs to Pacific Islander and Spanish-speaking populations, respectively. The Eastside LGBTQ Youth Advisory program is designed to engage and serve LGBTQ youth. Lastly, a grant was awarded to KCLS to fund a DEI Assessment, which will help the system to understand how it can better serve its diverse communities.

KCLS Foundation activities of significant importance in 2022 include:

The 2022 Literary Lions Gala event raised approximately \$391,172 through ticket sales, pre-event donations, challenge matching funds, "raise the paddle" donations and book sales. The money raised was utilized to support a wide variety of KCLS Foundation programs as described earlier.

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 \$1,745,623 and \$1,200,000 of net assets without donor restrictions for operating reserves and specific programs as of December 31, 2022 and 2021, 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, 2022 AND 2021

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specific purpose:		
Extending Service to People Experience Homelessness	\$ 68,908	\$ -
Literary Lions Gala Sponsorship	57,135	77,500
Early Literacy and Children Program	50,000	-
Future use in subsequent years	50,000	-
Raising a Reader	-	2,264
Dream Big	-	5,647
Restricted Libraries & Library Gifts	-	100
	<u>226,043</u>	<u>85,511</u>
Endowments:		
Subject to spending policy and appropriation:		
Early Literacy and Children's Programs endowment	1,451,456	1,700,550
Not subject to spending policy or appropriation:		
Beneficial interest in charitable lead annuity trust	42,000	131,539
	<u>1,493,456</u>	<u>1,832,089</u>
	<u>\$ 1,719,499</u>	<u>\$ 1,917,600</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, and money market funds. The fair values of the money market funds at December 31, 2022 and 2021, 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, 2022 AND 2021

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

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.

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

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 186,493	\$ 131,831
Equities	4,025,111	4,720,669
Bonds	<u>1,221,106</u>	<u>1,427,092</u>
	<u>\$ 5,432,710</u>	<u>\$ 6,279,592</u>

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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Promises to give

Promises to give are due as follows:

	<u>2022</u>	<u>2021</u>
Receivable in less than one year	\$ 510,840	\$ 2,554,855
Receivable in one to five years	<u>2,524,355</u>	<u>-</u>
	3,035,195	2,554,855
Less: allowance for uncollectible accounts	<u>(462,854)</u>	<u>(262,854)</u>
Total unconditional promises to give	<u>\$ 2,572,341</u>	<u>\$ 2,292,001</u>

Concentration

Two bequests receivable represented 93% and one bequest receivable represented 99% of promises to give as of December 31, 2022 and 2021, 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. The Foundation's financial interest in the charitable remainder annuity trust is recorded in the statements of financial position. The Foundation's financial interest in the gains and losses of the charitable remainder annuity trust are recognized and included in investment earnings (losses) in the statements of activities and the changes in net assets included therein.

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. Consequently, conditional grants for which no amounts had been received in advance totaling \$68,907 and \$137,815 at December 31, 2022 and 2021, respectively, have not been recognized in the accompanying financial statements.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 donations

KCLS Foundation receives donated office space, professional services, admin services, IT support services, 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.

In-kind donations comprised of the following for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Salaries and benefits	\$ 514,875	\$ 631,747
Professional services	128,953	22,608
Office space	31,554	31,306
Admin services	93,325	21,948
IT support services	21,211	21,211
Others	30,029	7,296
	<u>\$ 819,947</u>	<u>\$ 736,116</u>

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.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

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>2022</u>	<u>2021</u>
Total financial assets	\$ 9,759,231	\$ 10,467,873
Less amounts not available to be used within one year:		
Long-term promises to give	(2,061,501)	-
Endowment investments	(1,451,456)	(1,700,550)
Beneficial interest in charitable lead annuity trust	(42,000)	(131,539)
Beneficial interest in charitable remainder annuity trust	(324,996)	(399,628)
Funds subject to donor-imposed purpose restrictions	<u>(176,043)</u>	<u>(8,011)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 5,703,235</u>	<u>\$ 8,228,145</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, 2022				
Equities	\$ 4,025,112	\$ -	\$ -	\$ 4,025,112
Bonds	1,221,106	-	-	1,221,106
Beneficial interest in charitable remainder annuity trust	-	-	324,996	324,996
Beneficial interest in charitable lead annuity trust	-	-	42,000	42,000
Total	<u>\$ 5,246,218</u>	<u>\$ -</u>	<u>\$ 366,996</u>	<u>\$ 5,613,214</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE C - FAIR VALUE MEASUREMENTS (Continued)

	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Total</u>
As of December 31, 2021				
Equities	\$ 4,720,669	\$ -	\$ -	\$ 4,720,669
Bonds	1,427,092	-	-	1,427,092
Beneficial interest in charitable remainder annuity trust	-	-	399,628	399,628
Beneficial interest in charitable lead annuity trust	-	-	131,539	131,539
Total	<u>\$ 6,147,761</u>	<u>\$ -</u>	<u>\$ 531,167</u>	<u>\$ 6,678,928</u>

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

	<u>2022</u>	<u>2021</u>
Fair value - beginning of year	\$ 399,628	\$ 300,420
Change in value of charitable remainder annuity trust	(74,632)	99,208
Fair value - end of year	<u>\$ 324,996</u>	<u>\$ 399,628</u>

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

	<u>2022</u>	<u>2021</u>
Fair value - beginning of year	\$ 131,539	\$ 209,761
Trust distributions	(84,000)	(84,000)
Change in value of charitable lead annuity trust	(5,539)	5,778
Fair value - end of year	<u>\$ 42,000</u>	<u>\$ 131,539</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 \$1,388,991 and \$1,015,236, respectively, related to amounts directly paid to the Library or to vendors on behalf of the Library for the years ended December 31, 2022 and 2021.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE D - RELATED PARTIES (Continued)

Library in-kind staff and office support expenses were valued at \$819,947 and \$736,116, respectively, for the years ended December 31, 2022 and 2021. At December 31, 2022 and 2021, KCLS Foundation had payables directly owed to the Library of \$28,899 and \$48,578, 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, 2022 AND 2021

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

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, 2021	\$ -	\$ 1,405,305	\$ 1,405,305
Plus:			
Trust distributions	-	84,000	84,000
Investment income	-	29,362	29,362
Net gain on investments	-	191,883	191,883
Less:			
Appropriation of endowment assets for expenditure	-	(10,000)	(10,000)
Endowment net assets as of December 31, 2021	-	1,700,550	1,700,550
Plus:			
Trust distributions	-	84,000	84,000
Investment income	-	29,417	29,417
Net loss on investments	-	(353,028)	(353,028)
Less:			
Appropriation of endowment assets for expenditure	-	(9,483)	(9,483)
Endowment net assets as of December 31, 2022	<u>\$ -</u>	<u>\$ 1,451,456</u>	<u>\$ 1,451,456</u>

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

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 - SIGNIFICANT ESTIMATES

The Foundation was named as a beneficiary to a large estate in 2018. The primary asset of the estate is a retail shopping center (“the Center”) currently operating in Washington State in the Puget Sound region. The Center has continued normal operations while administration of the estate has progressed, with the estate’s intent of selling the Center and liquidating this large estate asset in an orderly fashion. Based on an independent market appraisal determining the value of the Center, the Foundation recognized in its Other Contributions on the Statements of Activities and a corresponding Promises to Give, net (receivable) on its Statements of Financial Position, the amount of approximately \$3.6 million in 2018, with this amount also being included in the Total Change in Net Assets for 2018 on the Statements of Activities. The Foundation receives periodic cash distributions from the ongoing operations of the Center as it continues normal retail operations pending any sale of the Center.

As of December 31, 2022, the center was not sold. Previous to 2022, the Foundation recorded the amounts received directly from the estate against the valuation in the Promises to Give, net, having received a total of \$1,125,000 from 2018 through 2021; \$500,000 in 2019, \$375,000 in 2020, and \$250,000 in 2021. The promises to give related to this estate totaled \$2,524,355, \$2,515,355 and \$2,755,373 as of December 31, 2021, 2020 and 2019, respectively, net of a 10% valuation allowance and these amounts for each year are included in the balance for Promises to give, net on the Statements of Financial Position for each year.

In 2022, the Foundation received new information regarding the ability to sell the Center. The additional information indicated a need to perform additional property mitigation activities to make the Center more marketable and saleable, with the Foundation’s share of the cost of the mitigation estimated at \$200,000. The Foundation accordingly recorded this provision against Promises to give, net and is included in the Statement of Activity for 2022 as well as the Total Change in Net Assets for 2022 and the related Statement of Financial Position. The new information received also indicated a more remote possibility of a sale in the immediate future, defined as within one year or operating cycle of the Foundation.

KING COUNTY LIBRARY SYSTEM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE G - SIGNIFICANT ESTIMATES (Continued)

As such, the Foundation has moved the net value in the Promises to give, net from a short term asset classification to a long term asset classification for 2022 and is reflected as a long term asset on the Statement of Financial Position for 2022. Given this change in asset classification from short term to long term, and the change in prospect of an immediate sale of the Center, the Foundation also changed the treatment of the ongoing periodic cash distributions from the Center's ongoing operations to Contributions, rather than against the valuation of the Promises to give, net as had been the practice prior to 2022 and this new information received. In 2022, the Foundation received \$125,000 as its share of the ongoing operations of the Center which has been recorded as a Contribution in the Statement of Activity for 2022 and accordingly in the Total Change in Net Assets for 2022.

NOTE H - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2022 through September 15, 2023, 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, 2022 including the estimates inherent in the processing of the financial statements.