

**JOHNSON COUNTY LIBRARY FOUNDATION**

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT  
DECEMBER 31, 2019



## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Johnson County Library Foundation  
Overland Park, Kansas

We have audited the accompanying financial statements of Johnson County Library Foundation (the "Foundation"), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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 of 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 above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

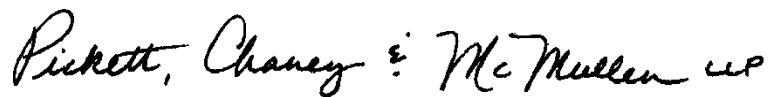
**Emphasis of Matters**

As discussed in Note 2 to the financial statements, the Foundation, in 2019, has adopted the provisions of the following:

- Accounting Standards Update ("ASU") No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)*.
- ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended.

Adoption of these standards has had a material effect on the presentation and disclosures of the financial statements for the year ended December 31, 2019. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, the accompanying financial statements have been restated to correct an error. Our opinion is not modified with respect to this error.

A handwritten signature in black ink that reads "Pickett, Chaney & McMullen LLP". The signature is written in a cursive, flowing style.

Overland Park, Kansas  
May 18, 2020

# JOHNSON COUNTY LIBRARY FOUNDATION

## STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2019

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### ASSETS

Cash and cash equivalents	\$ 212,087
Contributions and grants receivable	76,622
Prepaid expenses	315
BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION:	
Unrestricted fund	746,315
Collections endowment fund	1,682,880
Leadership endowment fund	<u>23,960</u>
Total beneficial interest in assets held by community foundation	<u>2,453,155</u>
Total assets	<u>\$ 2,742,179</u>

### LIABILITIES AND NET ASSETS

LIABILITIES -	
Accounts payable	\$ 34,566
NET ASSETS:	
Without donor restrictions	787,956
With donor restrictions	<u>1,919,657</u>
Total net assets	<u>2,707,613</u>
Total liabilities and net assets	<u>\$ 2,742,179</u>

See notes to financial statements.

# JOHNSON COUNTY LIBRARY FOUNDATION

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES, GAINS AND OTHER SUPPORT:</b>			
Contribution revenue:			
Individual contributions	\$ 65,268	\$ 91,578	\$ 156,846
Bequests and planned giving	302,114		302,114
Foundation contributions	1,018	50,182	51,200
Corporate contributions	12,987	20,250	33,237
United Way donor designations	1,500		1,500
In-kind contributions	165,517		165,517
Special events	103,784		103,784
Net investment return	89,090	269,562	358,652
Beneficial interest released from restrictions	80,224	(80,224)	
Net assets released from restrictions	<u>238,839</u>	<u>(238,839)</u>	
Total revenues, gains and other support	1,060,341	112,509	1,172,850
<b>EXPENSES:</b>			
Program services	320,525		320,525
Supporting services:			
Management and general	135,202		135,202
Fundraising	181,624		181,624
Direct benefits to donors	<u>24,050</u>		<u>24,050</u>
Total supporting activities	<u>340,876</u>		<u>340,876</u>
Total expenses	<u>661,401</u>		<u>661,401</u>
<b>CHANGE IN NET ASSETS</b>	398,940	112,509	511,449
<b>NET ASSETS, BEGINNING OF THE YEAR, AS RESTSTED</b>	<u>389,016</u>	<u>1,807,148</u>	<u>2,196,164</u>
<b>NET ASSETS, END OF THE YEAR</b>	<u><u>\$ 787,956</u></u>	<u><u>\$ 1,919,657</u></u>	<u><u>\$ 2,707,613</u></u>

See notes to financial statements.

# JOHNSON COUNTY LIBRARY FOUNDATION

## STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2019

		SUPPORTING SERVICES				
		Program Services	Management and General	Fundraising	Direct Benefits to Donors	Total Supporting Activities
Donations to support Johnson County Library collections	\$ 80,224					\$ 80,224
Salaries and benefits			\$ 107,618	\$ 111,312		\$ 218,930
Bank and credit card fees			1,463	1,512		2,975
Marketing				13,223		13,223
Other contracted services	79,902			15,027		15,027
In-kind goods and services			3,260	3,960	\$ 12,075	19,295
Insurance			1,576	185		1,761
Training and consulting	360		236			236
Professional fees			11,585	15,548		27,133
Annual meeting			2,033			2,033
Miscellaneous expenses	685			25		25
Subscriptions	655		588	8,733		9,321
Supplies	38,508		1,956	4,569	11,975	18,500
Postage and shipping	68			3,603		3,603
Equipment and furniture	44,486			215		215
Printing	1,620			2,755		2,755
Travel			4,887	217		5,104
Books and related supplies	74,017			740		740
TOTAL FUNCTIONAL EXPENSES	\$ 320,525	\$ 135,202	\$ 181,624	\$ 24,050	\$ 340,876	\$ 661,401

See notes to financial statements.

# JOHNSON COUNTY LIBRARY FOUNDATION

## STATEMENT OF CASH FLOWS YEARS ENDED DECEMBER 31, 2019

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### CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 511,449
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Net realized and unrealized (gains) losses on assets held by community foundation	(312,955)
Changes in operating assets and liabilities:	
Contributions and grants receivable	102,478
Prepaid expenses	(315)
Accounts payable	<u>28,791</u>
Net cash provided by operating activities	329,448

### CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from beneficial interest in assets held by community foundation	91,677
Purchase of beneficial interest in assets held by community foundation	<u>(373,555)</u>
Net cash used in financing activities	<u>(281,878)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 47,570

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 164,517

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 212,087

### SUPPLEMENTAL DISCLOSURE OF CASHFLOW INFORMATION:

Cash paid for interest	<u>\$ -</u>
Cash paid for income taxes	<u>\$ -</u>

See notes to financial statements.

# JOHNSON COUNTY LIBRARY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

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### 1. DESCRIPTION OF THE ORGANIZATION

Johnson County Library Foundation (the "Foundation") was established in 1996 to assist in the continued growth, enhancement, and development of library collections of the Johnson County Library (the "Library"). The Foundation's mission is to build an endowment for the Library's collection, and secure support for lifelong learning programs offered at Johnson County Library.

The Foundation helps the Library build its collection and resources, offer programs for patrons of all ages, and better serve the needs of the community. We do this by securing and managing donations from individuals, businesses and foundations to support the Library above and beyond what public funding provides. Programs supported by the Foundation include:

- Collection and resource enrichment
- Youth homework assistance
- Art and community engagement programs
- Early literacy initiatives
- Youth-at-risk programs
- Technology enhancements

**Management & General and Fundraising** – Provides oversight of programs, business management, record keeping, and budgeting, financing and other administrative and fundraising activities for the Foundation.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting and Presentation** – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, which require the Foundation to report information regarding its financial position and activities according to the following net asset classifications:

**Net assets without donor restrictions:** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Foundation's management and the board of directors.

**Net assets with donor restrictions:** Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

**Cash and Cash Equivalents** – For purposes of the Statement of Cash Flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. There were no cash equivalents held at year end.

**Contributions and Grants Receivable** – Contributions and grants receivable are stated at uncollected balances. If necessary, the Foundation will record an allowance for doubtful accounts, based on its assessment of the current status of individual accounts, historical experience, and a review of subsequent collections. As of December 31, 2019, no allowance was considered necessary.

**Net Investment Return** – Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; less external and direct internal investment expenses. The Foundation is invested in various pooled investment funds managed by Greater Kansas City Community Foundation (“GKCCF”). The pooled investment funds are valued at net asset value, which estimates fair value. Investment return is reflected in the Statement of Activities as without donor restrictions or with donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

**Risks and Uncertainties** – The Foundation invests in pooled accounts held and managed by GKCCF. These pooled accounts hold various securities, such as U.S. Government Securities, corporate debt instruments, corporate stocks and mutual funds. Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities could occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

**Revenue and Revenue Recognition** – The Foundation recognizes contributions when cash, securities or other assets, or an unconditional promise to give is received. Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence or nature of any donor-imposed restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. There were no conditional promises to give at December 31, 2019.

**In-Kind Contributions** – Contributed services are recognized as contributions if the services create or enhance non-financial assets or require specialized skills, are performed by individuals with those skills, and would otherwise be purchased by the Foundation if not contributed. In-kind contributions are recorded at estimated fair value at the date of contribution and are reported as contributions in-kind and as program or supporting service expenses, as applicable, on the accompanying Statement of Activities. The Foundation received in-kind contributions as follows:

Staff salaries and benefits received from Johnson County Library	\$ 158,892
Facilities received from Johnson County Library	6,625
Food and related items donated for fundraising events	<u>12,670</u>
	<u>\$ 178,187</u>

**Functional Expenses** – The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and related benefits, insurance, and supplies. Allocation of these expenses is based on estimates of time and effort.

**Income Taxes** – No provision for income taxes has been recorded, as the Foundation is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Foundation accounts for uncertain tax positions in accordance with the provisions of Financial Accounting Standards Board (“FASB”) Codification Topic *Income Taxes*. *Income Taxes* clarifies the accounting for uncertainty in income taxes and requires the Foundation to recognize in their financial statements the impact of a tax position taken or expected to be taken in a tax return, if that position is more likely than not to be sustained under audit, based on the technical merits of the position. Management has assessed the tax positions of the Foundation and determined that no positions exist that require adjustment or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Foundation believes it is no longer subject to income tax examinations for years prior to 2016.

**Use of Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and changes therein, 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.

**Date of Management’s Review** – Subsequent events have been evaluated through May 18, 2020, which is the date the financial statements were available to be issued.

**Accounting Standards Updates** – FASB ASC Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand the disclosures about revenue. We have implemented Topic 606 and have adjusted the presentation in these financial statements accordingly. The amendments had no effect on net assets.

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. We have 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. There is no effect on net assets in connection with our implementation of ASU 2018-18.

**Restatement** – An error has been identified with the classification of net assets related to the beneficial interest in assets held by community foundation as reported at December 31, 2018. Specifically, the Collections Endowment fund was incorrectly classified as net assets without donor restrictions. The effect of this restatement on the accompanying financial statements is summarized below. This correction had no effect on total net assets.

	December 31, 2018	
	As Restated	As Previously Reported
Net assets without donor restrictions	\$ 389,016	\$ 1,894,634
Net assets with donor restrictions	1,807,148	301,530

### 3. LIQUIDITY AND AVAILABILITY

The Foundation receives significant contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major and central to its operations to be available to meet cash needs for general expenditures. In addition to financial assets available to meet general expenditures over the next 12 months, the Foundation operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor restricted resources.

Although the Foundation does not intend to spend from the beneficial interest in assets held at the community foundation (other than amounts appropriated for collection expenditures as part of the Board's annual budget approval), these amounts could be made available, if necessary. The Board has adopted a policy to withdraw up to 3.75% annually from the Collections Endowment and the Unrestricted fund held in beneficial interest in assets held at the community foundation for support of the Johnson County Library collections.

As part of the Foundation's liquidity management plan, the Foundation transfers excess cash to the Unrestricted fund held and managed by GKCCF. The Foundation's goal is to maintain financial assets to meet approximately 90 days of cash operating expenses based on the annual budget. The annual cash operating expense budget for 2020 is \$140,000.

The following represents the Foundation's financial assets as of December 31, 2019:

Financial assets at period end:

Cash and cash equivalents	\$ 212,087
Contributions and grants receivable	76,622
Beneficial interest in assets held at community foundation	<u>2,453,155</u>
Total financial assets	<u>\$ 2,741,864</u>

Financial assets available to meet general expenditures within one year:

Cash and cash equivalents	\$ 212,087
Contributions and grants receivable	56,012
Estimated appropriation from Collections Endowment	<u>80,000</u>
	<u>\$ 348,099</u>

#### 4. BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION

The Foundation has transferred assets to the GKCCF, and has retained a beneficial interest in those assets. At the time of the transfer, the Foundation granted variance power to GKCCF. That power gives GKCCF the right to make the final decision regarding distributions from the funds. Currently, the Foundation has three separate funds at GKCCF, as follows:

**Collections Endowment Fund** – This fund was established in 2002, and represents the original endowment fund of the Foundation. The purpose of the fund is to support the collections of the Johnson County Library. GKCCF is authorized to accept additional contributions to the fund. Under the terms of the Fund, the intent is that the annual net income of the Fund be distributed to the Foundation when GKCCF receives and approves the written recommendation from the Executive Director of the Foundation. Net income is defined as an amount that shall be computed annually based upon the current spending policy of GKCCF (5% of the average past three year-end Fund balances). If any portion of the net income is not distributed in a particular calendar year, the undistributed net income for such year shall be added to principal.

It is not the intent of the Foundation or of GKCCF to make distributions of principal from the Fund. However, in the event of extraordinary circumstances, the principal of the fund, up to the entire Fund balance, may be distributed upon receipt and approval of such a request which reflects approval of at least a two-third vote of the Foundation's Board of Directors.

**Leadership Endowment Fund** – This fund was established in 2019. The purpose of the fund is to provide leadership development opportunities for Library staff in order to build future leaders of the Johnson County Library. GKCCF is authorized to accept additional contributions to the fund. Under the terms of the Fund, the intent is to maintain the corpus of the Fund in perpetuity with a disbursement goal of 3-5% of a rolling three year average of the Fund balance. Disbursements may begin in 2020, and shall be made to the Foundation when GKCCF receives and approves the written recommendation from at

least two of the following three Foundation positions: Board Chair, Board Treasurer or the Executive Director. Net income is defined as an amount that shall be computed annually based upon the current spending policy of GKCCF (5% of the average past three year-end Fund balances). If any portion of the net income is not distributed in a particular calendar year, the undistributed net income for such year shall be added to principal.

It is not the intent of the Foundation or of GKCCF to make distributions of principal from the Fund. However, in the event of extraordinary circumstances, the principal of the fund, up to the entire Fund balance, may be distributed upon receipt and approval of such a request which reflects approval of at least a two-third vote of the Foundation's Board of Directors.

**Unrestricted Fund** – This fund was established in 2017 as a quasi-endowment. This fund was established for investing unrestricted bequests and planned giving contributions. This fund is also used for investing excess cash of the Foundation. GKCCF is authorized to accept additional contributions to the fund. The Foundation may request income and principal from this fund for its unrestricted use, and such funds may be distributed to the Foundation when GKCCF receives and approves the written recommendation from the Executive Director with the approval of the executive committee.

## 5. CONTRIBUTIONS AND GRANTS RECEIVABLE

Unconditional contributions and grants receivable consist of the following:

Corporate contributions	\$ 34,817
Individual contributions	39,462
Foundations	1,500
Kansas Dept. of Commerce	5,000
Other	<u>1,814</u>
	82,593
Less: discount to net present value	<u>(5,971)</u>
	<u>\$ 76,622</u>
Receivable in less than one year	\$ 56,012
Receivable in one to five years	<u>26,581</u>
	82,593
Less: discount to net present value	<u>(5,971)</u>
	<u>\$ 76,622</u>

Unconditional promises to give are recorded at net present value of estimated future cash flows using a discount rate of 8%.

## 6. FAIR VALUE MEASUREMENTS AND DISCLOSURES

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy are described as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as 1) quoted prices for similar assets or liabilities, 2) quoted prices for identical or similar assets in inactive markets, 3) inputs other than quoted prices that are observable, and 4) inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset has a specified (contractual) term, the level 2 input must be observable for substantially the full term.

Level 3 – Unobservable inputs supported by little or no market activity and are significant to the fair value of the asset or liability

The assets fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2019:

**Beneficial interest in assets held by community foundation** – Fair value is determined using net asset value, which estimates fair value. Investments for which the Foundation expects to have the ability to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 2.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although The Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The following table presents the fair value measurements of assets and liabilities recognized in the accompanying Statement of Financial Position on a recurring basis:

	<u>Fair Value Measurements Using:</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Beneficial interest in assets held by community foundation	\$ 2,453,155		\$ 2,453,155	

Total return on investments and beneficial interest in assets held by community foundation as included in the Statement of Activities is as follows:

Interest and dividend income	\$ 55,082
Net realized and unrealized gains on beneficial interest in assets held at community foundation	315,022
Investment expenses	<u>(11,452)</u>
	<u>\$ 358,652</u>

## 7. NET ASSETS

Net assets without donor restrictions are available for the following purposes as of December 31, 2019:

Undesignated	\$ 41,641
Board designated	<u>746,315</u>
	<u>\$ 787,956</u>

The Board designated represents the beneficial interest in assets held at community foundation in the Unrestricted fund, which is designated by the governing body of the Foundation to be used in a manner similar to an endowment. This fund was established in 2017.

Net assets with donor restrictions are available for the following purposes as of December 31, 2019:

Subject to expenditure for specified purpose:

Librarian's fund	\$ 14,613
6x6 Program	7,322
Teen programs	10,903
Homework help	12,406
Summer reading	14,027
Immigrant services	8,339
Race project	2,300
Makers Space	78,128
Large print books	3,200
Berkley writers fund	7,622
Genealogy	10,000
Audio CDs and Audio Books	10,000
Other	3,347
	<u>182,207</u>

Subject to endowment spending policy and appropriation:

Collections fund	1,682,880
Leadership fund	54,570
	<u>1,737,450</u>
	<u>\$ 1,919,657</u>

Net assets of \$319,063 were released from net assets with donor restrictions by incurring expenses satisfying the restricted purposes, or by the passage of time. Net assets released from restrictions for the year ended December 31, 2019, were:

Support Johnson County Library collections	\$ 80,224
Librarian's fund	360
6x6 Program	54,279
Teen programs	25,550
Homework help	37,190
Summer reading	57,144
Immigrant services	10,147
Race project	32,964
Makers Space	17,709
Berkley writers fund	3,246
Other	250
	<u>\$ 319,063</u>

## 8. RELATED PARTY TRANSACTIONS

The Johnson County Library, an affiliated organization, and the Foundation have entered into a written Memorandum of Understanding ("MOU") to define the manner in which they would collaborate and provide assistance to one another for the benefit of the Library. The MOU is generally for a 12-month period, and is renewable annually. Under the terms of the agreement, the Library provides personnel, office space, computer usage, office equipment and support of the Foundation website. The Foundation agrees to accept and manage restricted and unrestricted gifts, and will ensure all funds not needed for operating expenses and budgeted appropriations are used to further the mission of the Foundation to

support the Library. Further, the Foundation Board will approve, on an annual basis, a disbursement from the Collections Endowment fund of at least 5% of the average balance of the fund. The Foundation agrees to reimburse the Library 75% of the salary of the Executive Director.

In 2019, the Foundation recognized an in-kind contribution and corresponding expense of \$165,517, which represents the estimated fair value of the services received by the Foundation for personnel and office support in excess of amounts reimbursed under the MOU. As of December 31, 2019, there were no amounts payable to the Library under this agreement.

## 9. ENDOWMENT

The Foundation's endowment consists of multiple funds. The endowment includes both donor-restricted endowment funds, and funds designated by the governing body to function as endowments. As required by U.S. generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function like endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's governing body is subject to the Kansas Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), as a result, the Foundation classifies in its donor restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the governing body appropriates such amounts for expenditures. Most of those net assets are also subject to purpose restrictions that must be met before being reclassified as net assets without donor restrictions. Donor restricted amounts are subject to appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed in UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effects of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

The composition of net assets by type of endowment fund as of December 31, 2019:

	<b><u>Without Donor Restrictions</u></b>	<b><u>With donor Restrictions</u></b>	<b><u>Total</u></b>
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity		\$ 1,180,594	\$ 1,180,594
Accumulated investment gains		556,856	556,856
Board-designated endowment funds	\$ 746,315		746,315
	<u>\$ 746,315</u>	<u>\$ 1,737,450</u>	<u>\$ 2,483,765</u>

Changes in endowment net assets for the year ended December 31, 2019:

	<b>Without Donor Restrictions</b>	<b>With donor Restrictions</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 364,239	\$ 1,494,083	\$ 1,858,322
Contributions	295,124	54,029	349,153
Investment return, net	86,952	269,562	356,514
Appropriation of endowment assets for expenditure		(80,224)	(80,224)
Endowment net assets, end of year	<u>\$ 746,315</u>	<u>\$ 1,737,450</u>	<u>\$ 2,483,765</u>

Total endowment funds are reflected in the statement of financial position at December 31, 2019:

	<b>Without Donor Restrictions</b>	<b>With donor Restrictions</b>	<b>Total</b>
Beneficial interest in assets held by community foundation	\$ 746,315	\$ 1,706,840	\$ 2,453,155
Contributions and grants receivable		30,610	30,610
	<u>\$ 746,315</u>	<u>\$ 1,737,450</u>	<u>\$ 2,483,765</u>

*Investment Return Objectives, Risk Parameters and Strategies* – The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment assets, while seeking to maintain the purchasing power of the endowment. All endowment funds are held and managed by GKCCF. The Foundation has selected a targeted investment mix, but under the terms of the agreement with GKCCF, the recommendation is advisory only and GKCCF may, at its sole discretion, change the investment of all or a portion of the assets in the funds. The current investment mix targets 60% to equity securities and 40% fixed income securities. The Foundation expects its endowment funds to provide an average rate of return of at least 5% annually, based on the funds average balance over the previous 3 years. Actual returns in any given year may vary.

Investment risk is measured in terms of the total endowment fund; investment assets and allocation between investment asset classes and strategies are managed to prevent exposing the fund to unacceptable levels of risk. All assets are required to have a readily ascertainable market value, and must be readily marketable. Certain high-risk or alternative investments are prohibited.

*Spending Policy* – The Foundation has a spending policy of appropriating for distribution 3% to 5% of the prior three years average fund balance. In establishing this policy, the Foundation considered the long-term expected investment return, the possible effects of inflation, and the MOU with the Library. This is consistent with the objective of maintaining the purchasing power of the endowment after spending, and secondarily achieving long-term capital appreciation.

## 10. SUBSEQUENT EVENTS

The MOU between the Library and the Foundation for 2020 changed the terms of the collection distribution. Prior to 2020, the distribution was 5% of the Collections endowment fund. In 2020, the distribution changed to 3.75%, but includes the average balance in the Unrestricted fund.

In January 2020, the Foundation received an unrestricted bequest of approximately \$400,000.

The Board of Directors approved a 1 for 1 match to the contributions made to the Leadership Fund.

The global pandemic of the Coronavirus that surfaced at the end of 2019, and has increased in severity and intensity throughout 2020, has disrupted the world's economy and caused a steep decline in financial markets. As discussed in Note 2, the investments held at GKCCF are sensitive to these types of events, and have most likely been adversely affected by the market changes.

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